

2011 *Annual* REPORT

Professional

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TO THE HONORABLE DENNIS DAUGAARD, GOVERNOR OF SOUTH DAKOTA;
THE HONORABLE MEMBERS OF OUR SOUTH DAKOTA LEGISLATURE;
AND CITIZENS OF SOUTH DAKOTA:

It is my pleasure to present to you this annual report of the services and accomplishments of the South Dakota Department of Revenue for fiscal year 2011. Upon taking office in January 2011, Governor Dugaard reorganized several areas of State Government including the Department of Revenue. This initiative renewed the Department's focus on our core mission of administering the tax system of South Dakota to generate revenue to fund programs that benefit the citizens of our state. Our fiscal year 2011 report is a reflection of the Department's effort to collect all state taxes required by law along with regulating South Dakota's lottery and gaming industries. In addition, the Department continues to ensure motor vehicle titling and registration requirements are accomplished and property tax assessments certified.

The economic challenges at the national level were also felt by South Dakota during 2011. However, our strong agricultural sector, solid retail sales, and an increase in the number of building projects across our state have given us a sense of optimism. The Department of Revenue responded to this environment by focusing on our core competency of tax administration while promoting a fair and equitable environment for all. The forefront of our efforts throughout were to serve the citizens of South Dakota in a professional, dependable, and accountable manner while fostering mutual respect and trust.

Upon my appointment as Secretary of Revenue by Governor Dugaard, one of my first goals was to complete an in-depth analysis of our Department. This effort has been instrumental in formulating the Department of Revenue's mission, values, and goals. Our employees are our greatest resource. Their efforts to communicate with and educate our partners across South Dakota have resulted in a positive working relationship with businesses, industry, governmental partners, and our state's citizens.

Future plans for the Department of Revenue include leveraging technology to communicate and educate. We are in the process of updating our website and newsletter which will provide user-friendly options and an effective means of communication. Additionally, we will be revamping our business education program to offer increased opportunities and new instructional options. I am confident that these efforts will strengthen our relationship with the taxpayers of South Dakota. We are also one of three lead agencies in Governor Dugaard's e-government initiative that will make interaction with Revenue easier with more options through technology.

Thank you for the opportunity to
serve the citizens of South Dakota
and I hope you find this report a
valuable source of information.

Respectfully,



Andy Gerlach
Secretary



DEPARTMENT OVERVIEW

OUR MISSION, OUR VALUES

Professional, Dependable, Accountable in partnership with South Dakota

Our Mission

Our mission is to serve South Dakotans and to support government services by collecting all taxes required by law, supporting motor vehicle requirements, and regulating the gaming industry and state's lottery to raise revenue for government programs. This is accomplished by providing taxpayers with current and complete information, education programs, and up-to-date technology to support tax filings, payments and motor vehicle registration. Our efforts have yielded high voluntary compliance rates in all areas and promote commitment, communication, and customer service.

We recognize our responsibilities to the taxpayers, and service is a priority. We are pleased to offer our professional services through the Internet and will continue to make progress while always promoting efficiency.

Our actions will comply with the statutory provisions of the State of South Dakota, and our duties under those statutes will be carried out in a fiscally responsible manner.



Our employees are our greatest resource...

Pictured (from left to right):

front row -Kathie Silbernagel, Audits; Wendy Semmler, Property and Special Taxes; middle row - Deputy Director Jason Evans, Property and Special Taxes; Betty Morford, Business Taxes; Randy Hartmann, Business Tax; back row - Steven Sievers, Administrative Services; Russ Hanson, Property and Special Taxes

Our Values

Professional - We are committed to maintaining a reputation of fairness, courtesy, and reliability in an atmosphere of mutual respect.

Dependable - We will focus on identifying and satisfying external and internal customer needs quickly.

Accountable - We will maintain an ethical standard of honesty and consistency while always being accountable to our stakeholders.

Public Service - Our employees are firmly committed to delivering prompt, courteous, respectful service to every customer, every time. We all choose public service as a profession.

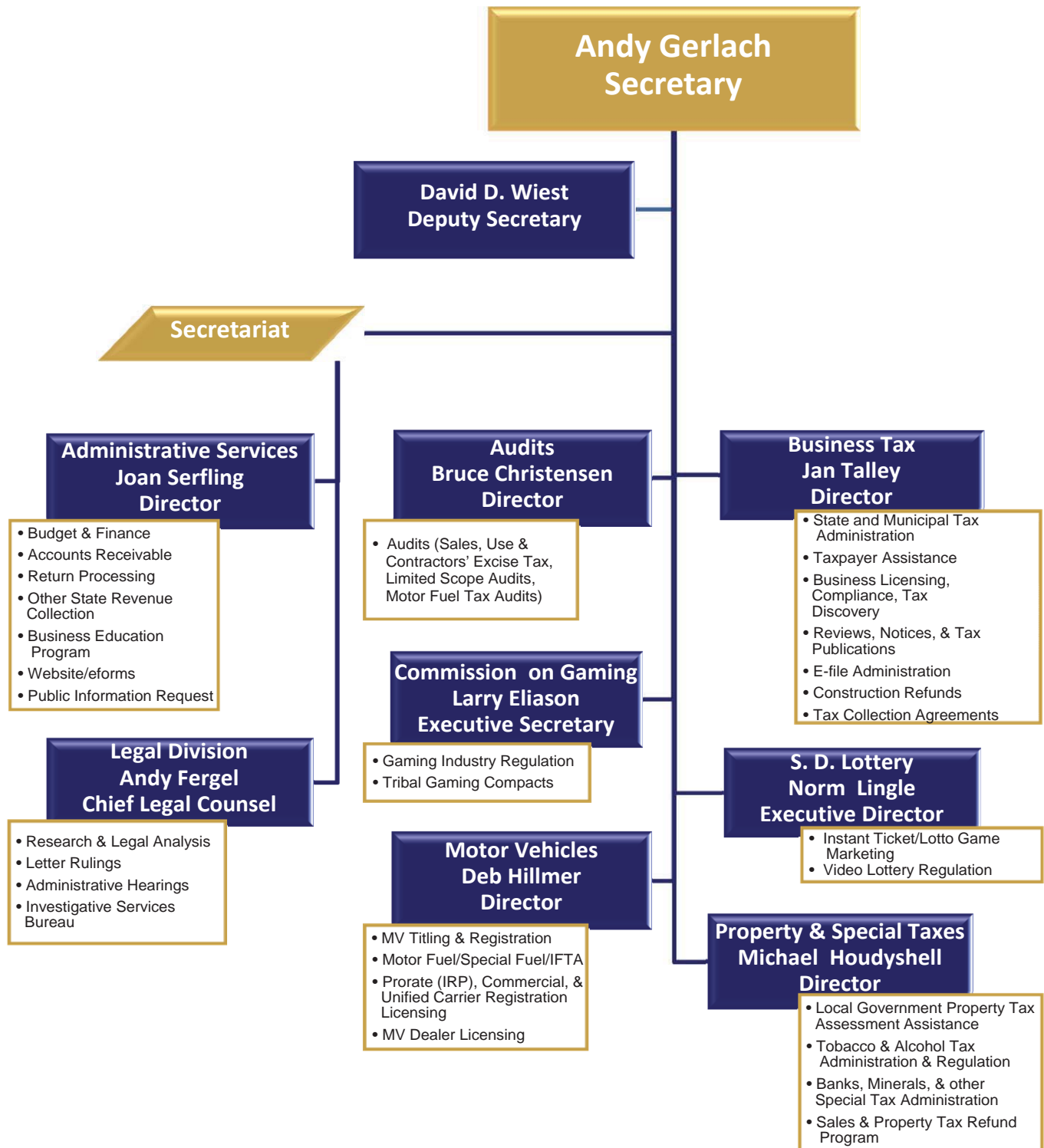
Communication - We value and expect open and honest sharing of ideas and concerns at all levels of our organization and with the citizens of South Dakota.

Innovation - Our department is committed to utilizing the latest technology to ease the compliance burdens of our customers ensuring we can serve the general public promptly, accurately, and efficiently.

DEPARTMENT OVERVIEW

ORGANIZATIONAL STRUCTURE

South Dakota Department of Revenue



DEPARTMENT OVERVIEW

The Department of Revenue consists of 6 divisions, 1 commission, and the Office of the Secretary. Included in the department are: Audits; Business Tax; Division of the Secretariat (which includes Administrative Services and Legal Services); Commission on Gaming; Lottery; Motor Vehicles; and Property and Special Taxes. The department secretary, division directors and a majority of staff are in Pierre, housed in three locations:

Anderson Building, 445 East Capitol Avenue: Office of the Secretary, Audits, Business Tax, Division of the Secretariat, Motor Vehicles, and Property and Special Taxes.

Capitol Lake Plaza, 711 East Wells Avenue: South Dakota Lottery.

221 West Capitol Avenue, Suite 101: Commission on Gaming.

The department also has six divisional field offices in Aberdeen, Mitchell, Rapid City, Sioux Falls, Watertown, and Yankton, as well as employees in Deadwood and Webster.

In fiscal year 2011, 252.6 full-time employees worked for the Department of Revenue administering, collecting, and distributing the state's 90 separate types of taxes and fees. Total administrative costs were \$62,470,633, of which \$1,099,658 were general fund dollars.



Management Team

First Row (left to right):

Andy Fergel, Legal; Joan Serfling, Administrative Services; Larry Eliason, Commission on Gaming; Jan Talley, Business Tax;

Second Row (left to right):

Norm Lingle, Lottery; Bruce Christensen, Audits; Andy Gerlach, Secretary; David Wiest, Deputy Secretary;

Not pictured:

Debra Hillmer, Motor Vehicles; Michael Houdyshell, Property and Special Taxes



TAX REVENUES: COLLECTIONS

The Department of Revenue is the principal tax agency for the State of South Dakota and collects 36 different state taxes. These taxes are grouped into four main categories: sales, use, and contractors' excise taxes; motor fuel taxes; motor vehicle fees and taxes; and special taxes. Once collected, these tax revenues are distributed to three primary locations: the state's general fund, local units of government, and the state highway fund.

In fiscal year 2011, revenue from all 36 state taxes totaled \$1,506,843,885, an increase of \$69,756,081 from fiscal year 2010 revenues of \$1,437,093,287. Total revenues from the past five years are shown below.

Total Revenues: A Five Year Comparison

<u>Fiscal Year</u>	<u>Total Revenues</u>	<u>Percent of Change</u>
2007	1,369,683,818	7.29%
2008	1,470,272,771	7.34%
2009	1,444,656,266	-1.74%
2010	1,437,093,287	-0.52%
2011	1,506,843,885	4.85%
Five-Year Average	\$1,445,710,005	N/A

Revenues by Category

Of the total tax revenue collected in fiscal year 2011, 75.5% came from sales, use and contractors' excise taxes. Motor fuel taxes accounted for 10.1%, special taxes 6.8%, and motor vehicle taxes 7.6%. The table below shows a five year comparison of revenues collected in each category.

Revenues by Tax Category: 2007 - 2011

<u>Fiscal Year</u>	<u>Sales, Use and Excise Taxes*</u>	<u>Motor Fuel Taxes**</u>	<u>Special Taxes</u>	<u>Motor Vehicle Fees***</u>
2007	981,337,354	138,737,571	142,786,691	103,859,018
2008	1,055,611,168	145,688,345	155,725,223	109,405,931
2009	1,066,082,423	138,152,006	136,743,929	103,677,908
2010	1,061,063,870	148,458,391	120,463,137	107,107,889
2011	1,137,637,580	152,242,306	102,098,046	114,865,953
Five-Year Average	\$1,060,346,479	\$144,655,724	\$131,563,405	\$107,783,340

* Includes Tourism Taxes, Motor Vehicle Leasing, Excise Tax on Water Projects, Telecom Tax, and Construction Refund Program

** Includes Tank Inspection Fees

*** Includes Single State Registration Fees

Revenues By Type of Tax

In fiscal year 2011, the revenue produced by the 36 separate taxes and fees administered by the department varied from a low of \$154 to a high of \$720,605,500.

A Three-Year Comparison of Revenues by Type of Tax

	FY2009	% Increase (Decrease) over Previous Year	FY2010	% Increase (Decrease) over Previous Year	FY2011	% Increase (Decrease) over Previous Year
Sales and Use Taxes - State	\$669,118,106	2.18%	\$652,743,552	-2.45%	\$720,605,500	10.40%
Contractors' Excise Tax - State	71,384,919	-9.61%	70,477,345	-1.27%	65,697,771	-6.78%
Sales, Use, Contractors' Excise Tax - Cities	275,551,719	1.68%	275,340,008	-0.08%	286,386,166	4.01%
Sales, Use, Contractors' Excise Tax - Tax Collection Agreements	6,707,443	4.95%	8,017,452	19.53%	9,809,347	22.35%
Tourism Tax	5,741,636	-0.12%	8,409,717	46.47%	9,474,051	12.66%
Water and Environment Fund	165,733	-65.17%	1,485,689	796.44%	2,022,939	36.16%
Intermediate Care Facility	919,745	34.61%	1,096,959	19.27%	1,019,970	-7.02%
Refund for Construction of Facility	23,316,260	-9.86%	29,416,523	26.16%	29,359,411	-0.19%
Motor Vehicle Leasing Fund	1,457,116	-3.68%	1,352,180	-7.20%	1,535,468	13.56%
Telecom	11,719,746	8.20%	12,724,445	8.57%	11,726,957	-7.84%
Aviation Fuel	678,735	-3.78%	625,523	-7.84%	707,430	13.09%
Motor Fuel Tax	116,653,798	-7.79%	125,691,954	7.75%	130,809,072	4.07%
Motor Fuel Tax - Tax Collection Agreements	3,216,085	1.99%	3,320,624	3.25%	3,263,012	-1.73%
Interstate Fuel Users Tax	2,248,039	-6.80%	1,935,793	-13.89%	1,400,847	-27.63%
Tank Inspection Fees	15,355,349	-4.44%	16,884,496	9.96%	16,061,945	-4.87%
Prorate	14,422,070	2.40%	14,664,959	1.68%	15,380,235	4.88%
Single State Registration Fees	1,003,180	-7.53%	470,271	-53.12%	1,191,231	153.31%
Motor Vehicle Titles and Registration	88,252,658	-6.35%	91,972,659	4.22%	98,294,487	6.87%
Cigarette Tax - State	57,190,869	0.05%	56,657,446	-0.93%	51,787,334	-8.60%
Cigarette Tax - Tax Collection Agreements	2,635,971	46.33%	2,449,488	-7.07%	2,302,863	-5.99%
Cigarette License Fees	12,300	-2.96%	12,150	-1.22%	14,175	16.67%
Other Tobacco Products	5,356,550	0.95%	5,734,603	7.06%	6,056,866	5.62%
Other Tobacco Products - Tax Collection Agreements	135,266	91.52%	153,785	13.69%	190,603	23.94%
Liquor License Fees	49,955	-2.15%	51,235	2.56%	90,000	75.66%
Malt Beverage Beer License Fees	270,440	0.95%	327,050	20.93%	337,850	3.30%
Alcoholic Beverage Brand Registration Fees	230,275	9.21%	314,008	36.36%	327,276	4.23%
Beer Tax	6,180,649	2.48%	6,154,244	-0.43%	6,138,160	-0.26%
Liquor Tax	6,536,026	2.87%	6,943,041	6.23%	7,083,971	2.03%
Alcoholic Beverage 2% Purchase Price Tax	1,284,897	6.00%	1,354,594	5.42%	1,431,373	5.67%
Wholesale Beer License Fee	2,600	0.00%	3,400	30.77%	2,000	-41.18%
Underage Penalty Fee	157,500	41.26%	186,000	18.10%	130,800	-29.68%
Bank Franchise/Bank Card Tax	48,772,364	-30.21%	31,157,026	-36.12%	15,203,536	-51.20%
Inheritance Tax	15,659	-86.75%	143,682	817.57%	154	-99.89%
Ore Tax	2,069,872	57.87%	3,906,203	88.72%	5,318,077	36.14%
Energy Mineral Tax	5,596,520	1.26%	4,505,399	-19.50%	5,276,994	17.13%
Coin Laundry License Fees	126,740	1.98%	252,433	99.17%	255,866	1.36%
Coin Laundry License Fees - Tax Collection Agreements	1,513	N/A	1,886	24.65%	1,687	-10.55%
Amusement Device Fee	65,205	-46.92%	94,188	44.45%	93,011	-1.25%
Bingo License Fee	25,000	0.00%	35,000	40.00%	30,000	-14.29%
Bingo Tax	27,758	7.29%	26,276	-5.34%	25,450	-3.14%
Totals	\$1,444,656,266	-1.74%	\$1,437,093,287	-0.52%	\$1,506,843,885	4.85%

TAX REVENUES: DISTRIBUTION

Distribution of Taxes

In fiscal year 2011, the \$1,506,843,885 in tax revenues collected by the department was distributed to various funds and units of government. The largest portion of revenues, 55.2%, was deposited in the state's general fund, with 24.3% going to local governments, 12.5% to the State Highway Fund, and 8% to other uses.

While sales, use and contractors' excise taxes make up 64% of the state general fund, the remainder of the fund comes from special taxes and fees and other sources which include the South Dakota Lottery and CRP program. The following chart shows the taxes that produce the revenues and the manner in which the revenues are distributed.

How Taxes Are Distributed

<u>Tax</u>	<u>General Fund</u>	<u>Local Government</u>	<u>State Highway Fund</u>	<u>Other</u>
State Sales Tax	100%	-0-%	-0-%	-0-%
State Use Tax	100%	-0-%	-0-%	-0-%
State Contractors' Excise Tax	100%	-0-%	-0-%	-0-%
Municipal Sales and Use Tax (1)	-0-%	100%	-0-%	-0-%
Cigarette Excise Tax	(2)	-0-%	-0-%	-0-%
Cigarette License Fee	100%	-0-%	-0-%	-0-%
Estate Tax	90%	10%	-0-%	-0-%
Bank Franchise Tax (3)	26.66%	73.33%	-0-%	-0-%
Bank Card Taxpayers	95%	5%	-0-%	-0-%
Ore Tax	100% (4)	-0-%	-0-%	-0-%
Coin Operated Laundromat Fee	100%	-0-%	-0-%	-0-%
Trading Stamp License Fee	100%	-0-%	-0-%	-0-%
Energy Minerals Severance Tax	50%	50%	-0-%	-0-%
Malt Beverage Occupational Tax	75%	25%	-0-%	-0-%
Conservation Tax	-0-%	-0-%	-0-%	(5)
Amusement Machine Registration	(6)	(6)	-0-%	-0-%
Distilled Spirits Occupational Tax	75%	25%	-0-%	-0-%
Wines and Diluted Beverages	75%	25%	-0-%	-0-%
Malt Beverage License Fee	50%	50%	-0-%	-0-%
Liquor License Fee (other than retail)	100%	-0-%	-0-%	-0-%
Other Tobacco Products Tax	(2)	-0-%	-0-%	-0-%
Alcoholic Beverage 2% Purchase Price Tax	100%	-0-%	-0-%	-0-%
Wholesale Liquor License Fee	100%	-0-%	-0-%	-0-%
Alcohol Beverage Brand Registration Fee	100%	-0-%	-0-%	-0-%
Aviation Fuel Tax	-0-%	-0-%	-0-%	Aeronautics Fund (DOT)

(continued on next page)

DISTRIBUTION/(CONTINUED)

How Taxes Are Distributed/continued

Tax	General Fund	Local Government	State Highway Fund	Other
Motor Fuel Tax	-0-%	-0-%	97%	(7)
Tank Inspection Fee	-0-%	-0-%	-0-%	(8)
Prorate Fee (9)	-0-%	98.5%	-0-%	(10)
Motor Vehicle Excise Tax	-0-%	-0-%	100%	
Motor Vehicle Registration Fee	-0-%	95.75%	-0-%	(11)
Motor Vehicle Licensing Receipts:				
Snowmobiles	-0-%	-0-%	-0-%	(12)
Plates and Permits	-0-%	-0-%	-0-%	LPR
Title and Penalty Fees	-0-%	-0-%	-0-%	MVF
Mobile Home Registration Fees	25%	63.75%	-0-%	11.25% - MVF

- (1) *The state retains an administrative fee, which varies from .55% to 1%.*
- (2) *The first \$30 million collected annually is deposited in the State General Fund. All revenue in excess of \$30 million goes into the Tobacco Prevention and Reduction Trust Fund.*
- (3) *An exception exists regarding banks organized pursuant to SDCL 51A-2-38 to 51A-2-43, inclusive. 95% of the revenue derived from that tax is deposited into the State General Fund, while 5% goes to the county where the bank is located.*
- (4) *Revenues from mining companies licensed after January 1, 1981 are split as follows: 80% to the state, 20% to the county of production (subject to a \$1 million cap).*
- (5) *100% of the tax collected is placed in the Environment and Natural Resources fee fund.*
- (6) *Revenue from devices located outside municipalities is deposited into the State General Fund. If the amusement device is located within the boundaries of a municipality, then the revenues are remitted to the municipality.*
- (7) *Motor fuel refunds are deducted first and then the remaining monies are divided as follows: Each July, an amount equal to the number of snowmobiles licensed as of July times 125 gallons times the tax rate is transferred to a fund for snowmobile trails; an amount equal to the number of licensed motorized boats times 140 gallons times the tax rate is transferred to the parks recreation fund; an amount equal to 35% of claimed refunds not to exceed \$1,500,000 is transferred to the conservation commission; the taxes collected under the provisions of the International Fuel Tax Agreement are transferred to member jurisdictions; and 2% is transferred to the Motor Fuel Tax Administration Account.*
- (8) *Beginning January 1, 2003, 50% of the revenue collected shall be deposited in the ethanol fuel fund and the remaining 50% distributed as follows: 78.7% deposited in the capitol construction fund and 21.3% deposited in the petroleum release compensation fund.*
- (9) *Other prorated fees: duplicate cab card, trailer fees, tractor registration fees, and transfer fees are deposited in the State Highway Fund. Trailer ID fees and duplicate fees are deposited in the License Plate Special Revenue Fund (LPR). Title and penalty fees and administration fees are deposited in the State Motor Vehicle Fund (MVF).*
- (10) *.5% is deposited in the State Motor Vehicle Fund (MVF), and 1% goes to the License Plate Special Revenue Fund (LPR). The percentages were changed in 2000.*
- (11) *1.75% is deposited in the State Motor Vehicle Fund (MVF), and 2.5% goes to the License Plate Special Revenue Fund (LPR).*
- (12) *90% goes to Game, Fish and Parks, 10% to the State Motor Vehicle Fund (MVF).*

A HISTORY OF SOUTH DAKOTA TAXES

CHRONOLOGY OF TAX LEGISLATION

The first state tax in South Dakota - an inheritance tax - was enacted by the legislature in 1905. Since that time, there have been a number of major expansions and changes in our tax codes, as evidenced by this chronology of the tax history of South Dakota.

1905 Inheritance Tax

2000 Last Major Change: Voters repealed the tax.

1913 License Fees, Non-Commercial

2011 Last Major Change: Fees increased on non-commercial, non-commercial gross weight, recreational and trailer, motor-home, motorcycles, and dealer plates. The increase in non-commercial gross weight fee schedule sets the current fees at 45% of the commercial license fees. The 30% break in license fees was changed to apply to vehicles 10 years of age and older.

1923 Motor Fuel

2009 Last Major Change: Changed how tax is applied to blended fuels (gasahol). Tax applied to ethyl alcohol at \$.08 per gallon and tax on gasoline at \$.22 per gallon.

1923 Cigarettes

2007 Last Major Change: Voters approved increasing the tax from \$.53 to \$1.53 per pack of 20 and \$.67 to \$1.92 per pack of 25.

1933 License Fees, Commercial

2011 Last Major Change: The 10% license fee reduction for commercial vehicles was changed to apply to vehicles 10 years old or more.

1935 Alcohol Beverage

2011 Last Major Change: An on-off sale malt beverage with South Dakota farm wines license was added with a fee of \$325. Also added was a hunting preserve license with a fee of \$500.

1935 Sales Tax

2004 Last Major Change: Tax repealed on trucking of products and small package delivery companies. Also exempted transportation services provided by household moving companies.

1935 Mineral Extraction

1994 Last Major Change: Changed from gross yield and net income to gross production (\$4 per ounce of severed gold) and 10% net income.

1937 Motor Vehicle Registration

2009 Last Major Change: Limited special plates for Disabled Veterans, Prisoners of War, Pearl Harbor Survivors, and Purple Heart recipients to two sets of plates for \$10 per year with no registration fee.

1939 Bank Franchise

2000 Last Major Change: Lowered the net income levels on which the bank franchise tax is based.

1939 Use Tax

2004 Last Major Change: Tax repealed on trucking of products and small package delivery companies. Also exempted transportation services provided by household moving companies.

1941 Special Fuel

1999 Last Major Change: Tax increased on April 1 from \$.18 to \$.22 per gallon.

1965 Interstate Fuels

1995 Last Major Change: Allowed state to enter into agreements for the collection of fuel tax on interstate motor carriers.

1977 Energy Mineral

No major changes made since implementation.

1979 Contractors' Excise Tax

1995 Last Major Change: Increased the tax rate on utility contracts from 1.5% to 2%.

1988 Tank Inspection Fee

1993 Last Major Change: Increased from \$.01 per gallon to \$.02 per gallon on all petroleum products introduced into this state.

1995 Other Tobacco Products Tax

2007 Last Major Change: Voters approved increasing from 10% to 35% the tax imposed on the wholesale purchase price of other tobacco products.

1998 Alcohol Beverage: Cider

1998: Cider was added as a category at a rate of \$.28 per gallon.

A LISTING OF SOUTH DAKOTA TAXES

DESCRIPTION OF INDIVIDUAL TAXES

Each of the four categories of taxes (sales, use and contractors' excise taxes; motor fuel taxes; motor vehicle licensing; and special taxes) is comprised of a number of individual taxes which vary in purpose, application, and rate.

<u>Tax</u>	<u>Description</u>
Alcoholic Beverage Brand	Malt and cereal beverages and wines; alcoholic cordials, liqueurs, cocktails, etc.; distilled spirits, whiskeys, gin, rum, brandy, vodka, etc. Imposed on all brand labels registered and offered for sale by distillers, manufacturers, vintners, and breweries importing products into the state. (Authority: SDCL 39-13-3) (Rate Base: Wines - 1st Label: \$25.00, 2nd label: \$17.50; Malt and cereal beverages - \$25.00 all labels; All other alcoholic beverages - \$50.00 all labels)
Alcoholic Beverage 2%	Imposed on all distilled spirits and wines imported and received by in-state licensed liquor wholesalers. (Authority: SDCL 35-5-6.1) (Rate Base: 2% of the purchase price paid for alcoholic beverages)
Amusement Machine	Imposed on all mechanical or electronic amusement devices offered to the public for use. Any device used exclusively at a fair may be registered for 30 days by paying a fee of \$3.00. Devices manufactured before 1940 are exempt from the fee. (Authority: SDCL 10-58) (Rate Base: \$12.00 per machine; \$3.00 per machine, temporary)
Bank Franchise Tax	Imposed on all banks and financial corporations, small loan companies and savings and loan companies on their net annual earnings in lieu of sales tax on financial and banking services. (Authority: SDCL 10-43-2, 4) (Rate Base: 6% decreasing to .25% as income increases or \$200 per location minimum)
Beer License Fee	Imposed on all applicants requesting permission to operate as a malt beverage wholesaler or retailer; annual license and 50% of all fees (except brewers license fee which is retained in state general fund) retained at the local level. (Authority: SDCL 35-4-2)(Rate Base: \$500.00 - Brewer; \$400.00 - Whole-salers; \$200.00 - Off-Sale; \$300.00 - On-Off Sale; \$150.00 - Transfers; \$225.00 - off-sale malt beverage and South Dakota farm wines; \$325.00 - On-Off Sale malt beverage and South Dakota farm wines)
Beer Occupational Tax	Imposed on all 31-gallon barrels of malt beverages imported and received by all licensed beer and liquor wholesalers. (Authority: SDCL 35-5-3) (Rate Base: \$8.50 per bbl.)
Bingo/Pull Tab Tax	All bingo paper and pull tab distributors pay a monthly tax of 5% of gross sales of these products. (Authority: SDCL 22-25-48) (Rate base: 5% of gross sales)
Bingo/Pull Tab Tax Licenses	Persons or entities selling bingo paper or pull tabs to any organization conducting bingo games or pull tab lotteries must acquire a distributor's license. Persons or entities manufacturing bingo paper or pull tabs and selling these products to South Dakota distributors must obtain a manufacturer's license. (Authority: SDCL 22-25-28, 29) (Rate base: Distributor- \$5,000 annually; Manufacturer- \$2,500 annually)
Cigarette Excise Tax	Imposed on all packs of 20 and 25 cigarettes; stamps applied by the cigarette distributor prior to any sale to retailers for resale. (Authority: SDCL 10-50-3) (Rate Base: \$1.53 cigarette stamp on packs of 20 and \$1.92 cigarette stamp on packs of 25)
Cider Tax	Imposed tax of \$.28 per gallon. (Authority: SDCL 35-5-3)
Cigarette License Fee	Imposed on all applicants requesting a cigarette wholesaler's or distributor's license; such licenses are required prior to the purchase and affixing of cigarette stamps. (Authority: SDCL 10-50-9) (Rate Base: \$150.00 annually)
Coin-Operated Laundromat Fee	Imposed on operators of coin-operated laundromats and dry cleaning businesses which is in lieu of sales or use tax provisions. \$20.00 per unit in cities of 1,000 population or over and all rural areas. \$16.00 per unit in cities of under 1,000 population. (Authority: SDCL 10-45-5.1) (Rate Base: \$16.00 per unit and \$20.00 per unit)
Commercial License Fee	In consideration of the unusual use of the public highways, each person, except as otherwise provided in this chapter, desiring to operate a motor vehicle, trailer or semitrailer, upon the public highways of this state as a motor carrier, annually pays the commercial motor vehicle fee based on gross weight. (Authority: SDCL 32-9-15 and SDCL 32-9-22) (Rate Base: fees are based on maximum gross weight)
Conservation Tax	Imposed on the severance of all energy minerals, paid quarterly by the severor. (Authority: SDCL 10-39B) (Rate Base: 2.4 mills of taxable value)
Contractors' Excise Tax	Contractors' Excise Tax of 2% is imposed on gross receipts of prime and subcontractors on realty improvement contracts performed for qualifying utility projects. Sales and use tax is applicable on construction materials. (Authority: SDCL 10-46B) (Rate Base: 2%) A contractors' excise tax of 2% is imposed on gross receipts of prime contractors on all other realty improvement contracts, including labor and materials. (Authority: SDCL 10-46A) (Rate Base: 2%)
Contractors' Use Tax	Imposes use tax on contractors and subcontractors who use tangible personal property in the performance of realty improvement contracts. Tax applies on the cost or fair market value of property, whichever is greater. Materials used in public contracts are taxable. (See Contractors' Excise Tax) (Authority: SDCL 10-46-5) (Rate Base: 4%)

TAX LISTING/(CONTINUED)

<u>Tax</u>	<u>Description</u>
Energy Minerals	Imposed on owners of energy minerals for the privilege of severing said minerals. (Authority: SDCL 10-39A) (Rate Base: 4.5% of taxable value)
Estate Tax	Imposed on estates in an amount equal to any unused Federal-State Death Tax Credit. (Authority: SDCL 10-40A) (Rate Base: Unused Federal Credit)
Excise Tax on Farm Machinery, Farm Attachment Units, and Irrigation Equipment	Imposed on the sale, use or lease of farm machinery, farm attachment units, and irrigation equipment. (Authority: SDCL 10-46E) (Rate Base: 4%)
Interstate Fuel Use Tax	Provides an additional method of collecting fuel taxes from interstate motor vehicle operators commensurate with their operations on South Dakota highways. (Authority: SDCL 10-47B) (Rate Base: .22/gallon - Diesel; .20/gallon - Liquid Petroleum Gas)
Liquor License Fee	Imposed on all applicants requesting permission to obtain and operate under the provision of any classified license listed in the area of distilled spirits and liquor. (Authority: SDCL 35-4-2) (Rate Base: \$4,000.00 - Distiller; \$5,000.00 - Wholesaler; \$500.00 - Artisan Distiller; \$25.00 - Solicitors; \$25.00 - Transporters; \$100.00 - Carriers; \$10.00 - Dispensers)
Liquor Tax	Imposed on every gallon of distilled spirits imported and received by in-state licensed liquor wholesalers. (Authority: SDCL 35-5-3) (Rate Base: \$3.93 per gallon)
Mobile Home	An initial registration fee at the rate of four percent of the purchase price of a mobile home or if a bill of sale is not available, the fair market value thereof. The payment of such license fee shall be in full and is in lieu of all occupational, sales, excise, privilege and franchise taxes levied by this state upon the gross receipts from all sales of mobile homes. (Authority: SDCL 32-5-16.1) (Rate Base: 4% on purchase price or fair market value)
Motor Fuel/Special Fuel Tax	A tax is imposed on all motor fuel and special fuel that is removed from a terminal in this state and on all imports of fuel, except dyed diesel fuel. A tax of \$.22 per gallon is imposed on all gasoline and \$.08 per gallon on ethyl or methyl alcohol sold or used in this state. Dyed diesel fuel is either exempt or subject to sales tax depending on the use of the fuel. (Authority: SDCL 10-47B) (Rate Base: .22/gallon - Motor Fuel/Special Fuel; \$.08/gallon ethyl/methyl alcohol; .06/gallon - Aviation; .10/gallon - Alternative Fuel for road purposes/ Compressed Natural Gas; .04/gallon Jet Fuel and Alternative Fuel for aircraft purposes)
Motor Vehicle Excise Tax	In addition to all other license and registration fees for the use of the highways, a person pays an excise tax at the rate of three percent on the purchase price of any snowmobile, boat or motor vehicle, as defined by 32-3-1 or 32-3A, purchased or acquired for use on the streets, highways or waterways of this state and required to be registered under the laws of this state. This tax is in lieu of any tax levied by chapters 10-45 and 10-46 on the sales of such vehicles. (Authority: SDCL 32-5B-1 thru 32-5B-20, 32-20A-15 and 32-3A) (Rate Base: 3% purchase price)
Municipal Gross Receipts Tax	Municipal Gross Receipts Tax imposed by city ordinance, administered by the Department of Revenue, in addition to state tax. Imposed on alcoholic beverages, eating establishments, lodging accommodations, ticket sales and admission to places of amusement, or athletic and cultural events. (Authority: SDCL 10-52A)(Rate Base: 1%)
Municipal Sales and Use Tax	Municipal sales and use taxes imposed by city ordinance, administered by the Department of Revenue, in addition to state tax. (Authority: SDCL 10-52) (Rate Base: No specific rate, rates vary from 1% up to 2%)
Non-Commercial License Fees	License fees and compensation on non-commercial motor vehicles, including automobiles, pickups and vans with an empty weight of 10,000 lbs. or less (pickups in the 6,001 - 10,000 lbs. category have the option of licensing non-commercial or non-commercial declared gross weight), trailers and semitrailers for use on the highways payable under SDCL 32-5-5, shall be determined by the manufacturer's shipping weight. License fees and compensation on non-commercial motor vehicles which are not automobiles, pickups or vans shall be determined on declared gross weight. (Authority: SDCL 32-5-5, 32-5-6, 32-5-6.1, 32-5-6.3, 32-5-6.4, and 32-5-8) (Rate Base: Fees are based on the age and weight of the vehicle)
Ore Tax	Imposed on all companies severing precious metals within the state; based on the gross production and net income from the sale of such metal. Each producer is given a 20 ounce exemption per year. (Authority: SDCL 10-39-43, 10-39-45.1, 10-39-56) (Base Rate: \$4 per ounce of gross gold production plus 10% of net income and 8% of royalties other than those owned by federal, state, or local governments; additional \$1 - \$4 per ounce if the average price of gold is \$500 or greater per ounce)
Other Tobacco Products Tax	Imposed on distributors and wholesalers of cigars, snuff, chewing tobacco and any other products made up of tobacco, except cigarettes. The tax is imposed on the wholesale purchase price of other tobacco products and is paid on the fifteenth day of the month following the month of purchase. (Authority: SDCL 10-50-61) (Rate Base: 35%)

TAX LISTING/(CONTINUED)

<u>Tax</u>	<u>Description</u>																																							
Retail Liquor License Fee	<p>These are the fees that may be assessed by the local governing board to any applicant requesting a retail liquor license to sell distilled spirits, wine and beer. The fees marked “max” indicate that the local board may set any fee up to this maximum level. All fees remain with the local governing board recommending the issuance of such license within their jurisdiction. (Authority: SDCL 35-4-2)</p> <table><tr><th></th><th><u>Rate Base:</u></th><th><u>City:</u></th></tr><tr><td>Off-sale Package Liquor</td><td>\$ 500 (min)</td><td>First Class (NEW)</td></tr><tr><td>Off-sale Package Liquor</td><td>\$ 500</td><td>First Class (RENEWAL)</td></tr><tr><td>Off-sale Package Liquor</td><td>\$ 400 (max)</td><td>Second Class</td></tr><tr><td>Off-sale Package Liquor</td><td>\$ 300 (max)</td><td>Third Class</td></tr><tr><td>On-sale Retailer Liquor (New)</td><td>\$1.00/person (min)</td><td>First Class</td></tr><tr><td>On-sale Retailer Liquor (Renewal)</td><td>\$1,500</td><td>First Class</td></tr><tr><td>On-sale Retailer Liquor</td><td>\$1,200 (max)</td><td>Second Class</td></tr><tr><td>On-sale Retailer Liquor</td><td>\$ 900 (max)</td><td>Third Class</td></tr><tr><td>On-sale Retailer Liquor (Airport)</td><td>\$ 250</td><td>All Classes</td></tr><tr><td>Off-sale Municipal Package</td><td>\$ 250 (min)</td><td>All Classes</td></tr><tr><td>On-Off sale (wine)</td><td>\$ 500</td><td>All Classes</td></tr><tr><td>On-sale Full Service Restaurant</td><td>Contact City</td><td>All Classes</td></tr></table>		<u>Rate Base:</u>	<u>City:</u>	Off-sale Package Liquor	\$ 500 (min)	First Class (NEW)	Off-sale Package Liquor	\$ 500	First Class (RENEWAL)	Off-sale Package Liquor	\$ 400 (max)	Second Class	Off-sale Package Liquor	\$ 300 (max)	Third Class	On-sale Retailer Liquor (New)	\$1.00/person (min)	First Class	On-sale Retailer Liquor (Renewal)	\$1,500	First Class	On-sale Retailer Liquor	\$1,200 (max)	Second Class	On-sale Retailer Liquor	\$ 900 (max)	Third Class	On-sale Retailer Liquor (Airport)	\$ 250	All Classes	Off-sale Municipal Package	\$ 250 (min)	All Classes	On-Off sale (wine)	\$ 500	All Classes	On-sale Full Service Restaurant	Contact City	All Classes
	<u>Rate Base:</u>	<u>City:</u>																																						
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On-Off sale (wine)	\$ 500	All Classes																																						
On-sale Full Service Restaurant	Contact City	All Classes																																						
Sales Tax	<p>Sales Tax applies on retailers' gross receipts from all sales of tangible personal property, and services and products transferred electronically not specifically exempted. Exemptions include, but are not limited to, sales to the state and its political subdivisions, certain agricultural products, motor vehicles, motor fuel, labor on construction and prescription drugs. A license is required. (Authority: SDCL 10-45) (Rate Base: 4%)</p>																																							
Tank Inspection Fee	<p>A \$0.02 per gallon fee is imposed upon any petroleum product received in this state. (Authority: SDCL 34A)</p>																																							
Title and Penalty Fees	<p>Title fees are \$5.00 per title; however, if the title is submitted more than 30 days after the date of sale, a late fee of one dollar for each week or fraction thereof beyond the 30-day limitation for 25 weeks and a late fee of \$50 for 26 weeks or more is imposed. (Authority: SDCL 32-3-18 and SDCL 32-3-27) (Rate Base: \$5.00 title fee, variable penalty)</p>																																							
Tourism Tax	<p>Imposed on lodging, visitor attractions, motor vehicle rentals, recreational vehicles, recreational services, spectator events, and visitor intensive businesses. (Authority: SDCL 10-45D) (Rate change effective 07/01/09 from 1% to 1.5%. New rate effective through 06/30/2013)</p>																																							
Trading Stamp License Fee	<p>Imposed annually on all trading stamp and coupon companies who wish to provide retailers with their products. (Authority: SDCL 37-19-1) (Rate Base: \$50.00)</p>																																							
Use Tax	<p>Use Tax is imposed on the privilege of the use, storage and consumption in this state of tangible personal property or services. Tax is imposed on persons using property and services. Certain exemptions apply; property exempted if taxed under 10-45. Use tax license required. (Authority: SDCL 10-46) (Rate Base: 4%)</p>																																							
Wine Tax (High)	<p>Imposed on wines, except sparkling wines, containing 14.1 to 20% alcohol by weight imported and received by in-state licensed liquor wholesalers. (Authority: SDCL 35-5-3) (Rate Base: \$1.45 per gallon)</p>																																							
Wines and Diluted	<p>Imposed on all wines, except sparkling wine, and diluted beverages containing 3.2 to 14% alcohol by weight imported and received by in-state licensed liquor wholesalers. (Authority: SDCL 35-5-3) (Rate Base: \$.93 per gallon)</p>																																							
Wine Tax (over 20%)	<p>Imposed on wines containing 20.1 to 24% alcohol by weight and all sparkling wine imported and received by in-state licensed liquor wholesalers. (Authority: SDCL 35-5-3) (Rate Base: \$2.07 per gallon)</p>																																							

LEGISLATIVE SUMMARY

2011 LEGISLATION RECAP – HOUSE BILLS

The 2011 South Dakota State Legislature passed several bills affecting the activities of the Department of Revenue. Some of these bills are summarized below and on the following page:

House Bill 1001	Clarifies the data that may be used to determine the agricultural income value for agricultural land. Also allows the Ag Land Assessment Legislative Task Force to make recommendations to the Legislature on other cropland and noncropland data.
House Bill 1002	Requires that valuation adjustments made by Directors of Equalization must be documented with reasonable data to support the adjustment.
House Bill 1026	Allows companies with over 50 vehicles in their fleet to utilize the online registration renewal system.
House Bill 1027	Changes the definition of trailer from 2000 to 3000 lbs. and allows trailers weighing less than 2000 lbs. to obtain an assigned serial number.
House Bill 1028	Clarifies for electronic returns and remittances that if a due date falls on a Saturday, Sunday, legal holiday, or a day the banks are closed, the due date is the next day that is not a Saturday, Sunday, legal holiday, or a day the banks are closed.
House Bill 1029	Removes the \$75 million threshold and requires all telecom companies providing local exchange service to pay the gross receipts tax.
House Bill 1060	Removes the requirement that counties expend money for townships based on the number of miles of maintained township roads.
House Bill 1119	Allows for the renewal of alcoholic beverage licenses without a hearing unless in the past year the licensee or one of its employees has had a criminal violation of the alcoholic beverage laws, or the license was suspended.
House Bill 1174	Allows the county to issue a liquor license to an “applicant who is authorized by the county to operate as the leaseholder at the county fairgrounds.”
House Bill 1192	Implements an increase in motor vehicle licensing fees in a two phase process.
House Bill 1207	Allows out-of-state dealers to come to South Dakota and sell their collector (20 years for vehicles and 30 for motorcycles) vehicles on consignment.
House Bill 1215	Repeals the gas tax refund provisions and diverts the money to county and township roads, conservation, value added ag, and Northern Crop Institute.
House Bill 1247	Appropriates \$500,000 from the state general fund to pay for refunds under the elderly and disabled persons tax refund program.
House Bill 1248	Extends the sunset of the gross receipts tax imposed on visitor-related businesses (tourism tax) to July 1, 2013.
House Bill 1256	Requires any out-of-state emergency vehicle dealer that is submitting a bid proposal in the state for the sale of an emergency vehicle to obtain a South Dakota emergency vehicle dealer license.

LEGISLATIVE SUMMARY/(CONTINUED)

2011 LEGISLATIVE RECAP – SENATE BILLS

Senate Bill 39	Requires relief agencies and religious educational institutions have a physical presence in South Dakota to be exempt from the sales tax.
Senate Bill 40	Makes the telecommunications gross receipts tax subject to the uniform administration rules of SDCL ch. 10-59, and specifically restricts the application of SDCL ch. 10-59 to those chapters or sections of the code listed in SDCL 10-59-1.
Senate Bill 42	Clarifies that only the transfers into a terminal by pipeline are exempt from the fuel tax.
Senate Bill 46	Clarifies that the “cost penalties” are sent to the state treasurer and that cities and counties can permit the sale of alcoholic beverages on publicly owned property or property owned by a non-profit corporation if a temporary license has been issued for a special event at the location.
Senate Bill 48	Clarifies that cities and counties can permit the sale of alcoholic beverages on publicly owned property or property owned by a non-profit corporation if a temporary license has been issued for a special event at the location.
Senate Bill 90	Revises provisions concerning tax incremental districts (TIFs).
Senate Bill 102	Repeals the requirement that directors of equalization in a joint district cooperate to establish the assessed valuation for all property in the school district.
Senate Bill 103	Allows cities and counties to issue temporary alcohol licenses for special events to be held at a publicly owned facility without a public hearing; it will require cities to adopt rules regarding temporary alcoholic beverage licenses; it will remove the ability of a beer licensee to be eligible for a temporary liquor license; and it will clarify that cities and counties may allow the sale of alcohol on public property or property owned by a non-profit corporation during a special event.
Senate Bill 112	Repeals the requirement that county treasurers collect the oldest delinquent property tax first.
Senate Bill 121	Allows a license for on/off sale beer along with on/off-sale South Dakota farm wine only.
Senate Bill 146	Requires non-nexus sellers to post a notice on the order form and on the invoice that South Dakota use tax may be due on purchases where tax was not collected.
Senate Bill 147	Expands the application of nexus to allow that if an online store has a substantial ownership in or is owned by an in-state store, and both retailers sell substantially the same products, or the in-state store advertises for the online store, or the online store owns a warehouse in the state, nexus is created.
Senate Bill 193	Allows counties to issue additional liquor licenses to certain licensed hunting preserves for a yearly fee of five hundred dollars. These licensees would be limited to serving only their guests, they would not be allowed to sell alcohol at retail to members of the general public, and these types of licenses would be non-transferable.

SALES, USE AND CONTRACTORS' EXCISE TAXES

BUSINESS TAX DIVISION

-- JAN TALLEY, DIRECTOR

The Business Tax Division administers the sales tax, use tax, municipal tax, and contractors' excise tax, as well as the tax collection agreements with Indian tribes. The division issues licenses to new taxpayers, educates current taxpayers, performs reviews of businesses, handles compliance for licensed and unlicensed businesses, and collects delinquent taxes.

It is also the responsibility of the division to administer the construction refund programs. These programs allow businesses to seek a refund of sales, use and contractors' excise tax or delay payment of sales and use tax on projects such as large wind farms, new and expanded agricultural facilities, and power facilities.

Tax Help that works! For tax answers, call toll-free **1-800-829-9188**. Helpful tax publications available from the Business Tax Division can be accessed at:
<http://www.state.sd.us/drr2/businessstax/bustax.htm>.

Total Revenues

Sales, use and contractors' excise taxes produce the largest portion of the total tax revenues, accounting for 71.8% of the total revenues in fiscal year 2011. These revenues come from over 78,399 businesses that currently pay sales, use and contractors' excise tax on their products and services. In fiscal year 2011, sales, use and contractors' excise taxes in South Dakota totaled \$1,082,498,784. This included state taxes, municipal taxes, and taxes collected pursuant to tax collection agreements with Indian tribes.

Of the \$1,082,498,784 collected, 66.6% came from the state sales and use tax; 26.5% from municipal sales and use taxes; 6% from state contractors' excise tax; and 0.9% from taxes collected pursuant to a tax collection agreement with an Indian tribe.

Below is a ten-year comparison of total state revenues from these taxes.

Total State Revenues: Sales, Use and Contractors' Excise Taxes

<u>Fiscal Year</u>	<u>Total State Revenues</u>	<u>Percent of Change</u>
2002	517,325,658	1.68%
2003	538,895,652	4.17%
2004	574,063,634	6.53%
2005	607,436,346	5.81%
2006	660,042,811	8.66%
2007	691,218,595	4.72%
2008	733,797,079	6.16%
2009	740,503,025	0.91%
2010	722,442,016	-2.44%
2011	786,303,271	8.84%

SALES TAX/(CONTINUED)

MUNICIPAL TAXES

While cities set their own tax rates, the department is responsible for collecting the actual taxes. Those revenues are then distributed to the taxing units based on the amount collected from each city. These sales tax revenues do not necessarily indicate the level of economic activity in these areas since municipalities vary in their tax rates and the size of their tax bases.

City	2011 Rate(s)	FY2010 Remittance	FY2011 Remittance	% Increase (Decrease)	City	2011 Rate(s)	FY2010 Remittance	FY2011 Remittance	% Increase (Decrease)
Aberdeen	1%, 2%	\$15,665,623.82	\$15,098,284.82	-3.62%	Doland	2%	53,961.05	56,587.57	4.87%
Akaska	2%	17,288.01	14,724.19	-14.83%	Dupree	1%	54,768.99	61,508.57	12.31%
Alcester	2%	137,957.95	147,668.84	7.04%	Eagle Butte	1%, 2%	337,882.05	457,140.00	35.30%
Alexandria	2%	114,958.92	105,542.49	-8.19%	Eden	1%	16,933.53	18,786.07	10.94%
Alpena	1%	93,982.08	148,420.66	57.92%	Edgemont	1%, 2%	181,056.98	202,847.44	12.04%
Andover	2%	11,074.90	38,445.24	247.14%	Egan	2%	22,368.28	25,073.99	12.10%
Arlington	2%	261,144.80	399,991.95	53.17%	Elk Point	1%, 2%	415,199.16	405,231.22	-2.40%
Armour	2%	204,822.67	231,990.31	13.26%	Elkton	2%	176,406.17	198,208.29	12.36%
Artesian	2%	18,641.82	16,614.62	-10.87%	Emery	2%	116,220.58	119,820.75	3.10%
Ashton	1%	5,211.55	7,722.54	48.18%	Estelline	2%	113,682.52	135,941.33	19.58%
Astoria	1%	13,099.21	22,821.84	74.22%	Ethan	2%	87,347.74	111,335.24	27.46%
Aurora	1%	59,229.79	50,667.19	-14.46%	Eureka	2%	303,107.60	274,779.31	-9.35%
Avon	2%	126,065.62	135,257.67	7.29%	Fairfax	2%	10,259.59	29,270.11	185.30%
Baltic	1%, 2%	120,849.67	121,340.10	0.41%	Faith	1%, 2%	199,329.39	212,607.61	6.66%
Belle Fourche	1%, 2%	1,924,884.70	1,995,064.71	3.65%	Faulkton	2%	260,227.10	273,371.20	5.05%
Belvidere	2%	11,237.29	13,798.24	22.79%	Flandreau	1%, 2%	521,749.53	633,769.82	21.47%
Beresford	1%, 2%	687,285.34	762,959.79	11.01%	Florence	2%	44,974.08	51,851.43	15.29%
Big Stone City	1%, 2%	176,040.77	280,935.05	59.59%	Fort Pierre	1%, 2%	1,007,719.53	1,042,885.22	3.49%
Bison	2%	184,828.80	175,476.17	-5.06%	Frederick	1%	18,773.69	21,190.72	12.87%
Blunt	1%	34,855.57	35,218.26	1.04%	Freeman	2%	477,018.94	533,786.59	11.90%
Bonesteel	1%, 2%	69,317.40	60,736.12	-12.38%	Garretson	1%, 2%	388,288.44	341,225.93	-12.12%
Bowdle	2%	121,138.60	142,544.32	17.67%	Gary	1%	46,844.73	47,080.97	0.50%
Box Elder	1%, 2%	827,724.15	1,029,069.13	24.33%	Gayville	2%	36,117.53	29,697.30	-17.78%
Brandon	1%, 2%	1,947,708.16	2,092,506.32	7.43%	Geddes	2%	41,321.42	44,475.68	7.63%
Brandt	2%	16,581.16	18,435.84	11.19%	Gettysburg	1%, 2%	428,987.62	491,032.56	14.46%
Bridgewater	2%	76,976.31	80,839.36	5.02%	Glenham	2%	21,811.03	16,030.40	-26.50%
Bristol	2%	69,220.83	66,160.43	-4.42%	Gregory	1%, 2%	561,819.06	553,827.85	-1.42%
Britton	1%, 2%	577,916.00	619,222.85	7.15%	Grenville	2%	12,678.36	12,388.27	-2.29%
Brookings	1%, 2%	10,497,905.06	10,589,815.77	0.88%	Groton	1%, 2%	503,402.04	484,305.75	-3.79%
Bryant	2%	89,141.33	91,744.78	2.92%	Harrisburg	1%, 2%	620,122.53	668,747.14	7.84%
Buffalo	1%, 2%	97,224.19	161,181.20	65.78%	Harold	2%	78,771.55	72,599.44	-7.84%
Burke	2%	221,908.36	236,555.39	6.60%	Hartford	1%, 2%	521,179.25	633,754.49	21.60%
Canistota	1%, 2%	137,951.22	134,869.68	-2.23%	Hayti	2%	73,368.30	69,811.49	-4.85%
Canova	1.95%	19,965.58	22,114.18	10.76%	Hazel	1%	7,431.91	8,993.33	21.01%
Canton	2%	761,969.53	853,764.42	12.05%	Hecla	1%	37,165.05	39,527.59	6.36%
Carthage	2%	37,644.85	37,716.69	0.19%	Henry	1%	22,990.56	28,737.14	25.00%
Castlewood	2%	103,117.43	133,230.57	29.20%	Hermosa	2%	107,563.18	110,090.25	2.35%
Cavour	2%	N/A	7,006.59	N/A	Herreid	2%	199,480.27	176,559.03	-11.49%
Centerville	1%, 2%	149,702.40	145,247.46	-2.98%	Highmore	1%, 2%	354,697.81	449,365.42	26.69%
Central City	2%	56,920.49	67,182.90	18.03%	Hill City	1%, 2%	750,671.01	792,217.08	5.53%
Chamberlain	1%, 2%	1,268,453.88	1,292,356.56	1.88%	Hitchcock	1%	11,312.32	12,288.55	8.63%
Chancellor	1%, 2%	54,893.64	52,053.34	-5.17%	Hosmer	1%, 2%	20,441.55	29,183.64	42.77%
Clark	2%	\$323,947.18	\$374,768.32	15.69%	Hot Springs	1%, 2%	1,399,413.07	1,388,749.94	-0.76%
Clear Lake	1%, 2%	479,670.77	574,426.88	19.75%	Hoven	2%	156,542.39	153,207.42	-2.13%
Colman	2%	131,919.16	136,938.48	3.80%	Howard	2%	298,235.60	398,702.27	33.69%
Colome	2%	58,984.95	51,618.43	-12.49%	Hudson	2%	101,703.98	97,345.33	-4.29%
Colton	1%, 2%	111,532.32	111,038.44	-0.44%	Humboldt	1%, 2%	118,057.48	129,834.71	9.98%
Corona	2%	17,378.13	15,387.44	-11.46%	Hurley	2%	49,369.72	56,482.75	14.41%
Corsica	1%, 2%	222,739.09	240,949.21	8.18%	Huron	1%, 2%	5,689,541.32	5,838,140.75	2.61%
Crooks	1%, 1.90%	119,126.32	121,400.33	1.91%	Interior	1.90%	33,933.33	33,052.48	-2.60%
Custer	1%, 2%	1,359,680.56	1,500,500.65	10.36%	Ipswich	2%	331,262.44	368,326.43	11.19%
Dallas	1%, 2%	35,865.58	47,122.13	31.39%	Irene	2%	93,800.89	98,643.41	5.16%
Davis	2%	9,009.86	8,630.31	-4.21%	Iroquois	1%	34,419.15	31,042.95	-9.81%
De Smet	1%, 2%	421,981.13	473,926.43	12.31%	Isabel	2%	62,461.62	72,386.92	15.89%
Deadwood	1%, 2%	2,586,957.18	2,864,603.23	10.73%	Java	2%	18,763.61	17,559.99	-6.41%
Dell Rapids	1%, 2%	786,230.08	821,395.90	4.47%	Jefferson	2%	89,835.54	126,772.01	41.06%
Delmont	2%	41,787.10	46,808.25	12.02%	Kadoka	1%, 2%	253,624.00	266,860.67	5.22%
Dimock	2%	24,457.66	23,175.28	-5.24%	Kennebec	1%, 2%	115,309.35	98,416.83	-14.65%

SALES TAX/(CONTINUED)

City	2011 Rate(s)	FY2010 Remittance	FY2011 Remittance	% Increase (Decrease)	City	2011 Rate(s)	FY2010 Remittance	FY2011 Remittance	% Increase (Decrease)
Keystone	1%, 2%	\$744,200.46	\$823,613.65	10.67%	Roslyn	2%	\$40,891.31	\$41,697.50	1.97%
Kimball	1%, 2%	253,492.80	294,540.77	16.19%	Saint Lawrence	2%	52,005.49	37,545.87	-27.80%
Kranzburg	2%	18,350.56	22,087.51	20.36%	Salem	1%, 2%	388,282.97	437,623.13	12.71%
La Bolt	1%	2,539.08	14,325.30	464.19%	Scotland	2%	329,860.48	452,337.01	37.13%
Lake Andes	2%	144,795.67	148,391.82	2.48%	Selby	2%	172,532.82	204,971.37	18.80%
Lake Norden	1%	167,261.11	170,917.09	2.19%	Sherman	1%	4,655.34	5,638.20	21.11%
Lake Preston	2%	195,246.90	180,249.07	-7.68%	Sioux Falls	1%, 2%	91,320,945.94	94,256,261.62	3.21%
Langford	1%, 2%	38,836.27	47,951.06	23.47%	Sioux Falls Lodging	2%	574,870.54	618,218.89	7.54%
Lead	1%, 2%	674,852.59	694,561.85	2.92%	Sisseton	1%, 2%	976,365.45	968,940.03	-0.76%
Lemmon	2%	495,842.81	528,869.49	6.66%	South Shore	1%	14,205.76	13,060.96	-8.06%
Lennox	2%	402,902.38	610,567.34	51.54%	Spearfish	1%, 2%	6,410,261.39	6,558,029.68	2.31%
Leola	2%	86,735.10	96,037.52	10.73%	Spencer	2%	19,080.30	18,622.68	-2.40%
Lesterville	1%, 2%	12,063.04	18,523.05	53.55%	Springfield	2%	242,738.63	192,750.45	-20.59%
Letcher	1%, 2%	29,500.55	29,381.65	-0.40%	Stickney	2%	88,100.78	99,996.04	13.50%
McIntosh	2%	38,450.38	40,129.12	4.37%	Stratford	1%	4,449.51	4,461.96	0.28%
McLaughlin	1%	75,994.83	84,820.27	11.61%	Sturgis	1%, 2%	2,759,086.29	2,919,867.03	5.83%
Madison	1%, 2%	2,375,429.50	2,494,240.28	5.00%	Summerset	1%, 2%	276,681.51	289,563.75	4.66%
Marion	2%	223,845.99	224,167.67	0.14%	Summit	2%	88,223.23	87,647.15	-0.65%
Martin	1%, 2%	387,284.39	354,096.32	-8.57%	Tabor	2%	61,365.19	69,176.23	12.73%
Menno	2%	171,732.03	178,300.34	3.82%	Tea	1%, 2%	815,590.64	856,664.37	5.04%
Midland	2%	44,758.23	55,999.05	25.11%	Timber Lake	2%	124,588.76	156,451.49	25.57%
Milbank	1%, 2%	2,098,692.41	1,820,801.31	-13.24%	Toronto	1%	32,228.28	36,439.59	13.07%
Miller	2%	647,728.45	694,539.55	7.23%	Trent	1%	10,983.09	10,584.30	-3.63%
Mission	1.75%, 2%	349,725.63	409,110.27	16.98%	Tripp	2%	110,723.17	125,263.99	13.13%
Mitchell	1%, 2%	9,736,642.92	10,265,853.20	5.44%	Tulare	1%	26,615.27	26,549.72	-0.25%
Mobridge	1%, 2%	1,437,544.50	1,528,518.61	6.33%	Tyndall	2%	238,866.97	262,121.53	9.74%
Monroe	1%	3,989.44	4,567.12	14.48%	Valley Springs	2%	65,324.66	94,969.68	45.38%
Montrose	2%	66,070.03	70,143.81	6.17%	Veblen	1%	37,692.24	87,330.69	131.69%
Morristown	1%	3,634.85	3,785.38	4.14%	Vermillion	1%, 2%	3,396,020.78	3,035,558.10	-10.61%
Mound City	2%	21,092.93	14,676.32	-30.42%	Viborg	1%, 2%	244,979.21	254,193.83	3.76%
Mount Vernon	1%, 2%	64,539.68	61,259.04	-5.08%	Volga	1%, 2%	191,853.74	309,774.42	61.46%
Murdo	1%, 2%	365,954.61	379,403.05	3.67%	Volin	2%	8,165.98	14,714.99	80.20%
New Underwood	2%	82,301.67	82,413.40	0.14%	Wagner	2%	635,577.73	695,717.57	9.46%
Newell	2%	169,713.31	166,053.91	-2.16%	Wakonda	1%, 2%	29,312.67	62,783.10	114.18%
Nisland	2%	13,083.37	15,873.07	21.32%	Wall	1%, 2%	883,489.92	963,100.86	9.01%
North Sioux City	1%, 2%	1,682,876.95	1,877,965.59	11.59%	Wallace	1%	N/A	4,667.62	N/A
Oacoma	1%, 2%	524,418.34	540,598.31	3.09%	Ward	2%	12,850.10	10,699.47	-16.74%
Olivet	1%	5,307.60	7,695.01	44.98%	Warner	2%	42,069.67	68,866.26	63.70%
Onida	2%	249,851.82	245,602.41	-1.70%	Wasta	1%	3,944.74	5,375.13	36.26%
Orient	1%	14,671.87	15,088.82	2.84%	Watertown	1%, 2%	12,213,260.94	13,039,186.98	6.76%
Parker	2%	292,070.43	276,389.65	-5.37%	Waubay	2%	124,463.55	111,336.28	-10.55%
Parkston	1%, 2%	408,180.82	460,448.84	12.81%	Webster	1%, 2%	745,913.58	776,866.55	4.15%
Philip	2%	351,215.51	363,248.84	3.43%	Wentworth	2%	33,230.38	38,560.73	16.04%
Pickstown	2%	51,425.16	66,121.89	28.58%	Wessington	1%	36,094.50	32,786.38	-9.17%
Piedmont	2%	116,345.03	166,204.46	42.85%	Wessington Springs	2%	295,255.78	314,396.74	6.48%
Pierpont	2%	22,766.99	21,372.17	-6.13%	White	2%	84,786.25	115,766.46	36.54%
Pierre	1%, 2%	6,668,295.23	6,792,975.86	1.87%	White Lake	1%, 2%	89,941.20	123,277.42	37.06%
Plankinton	2%	157,561.94	164,832.18	4.61%	White River	2%	130,908.64	140,739.93	7.51%
Platte	1%, 2%	594,794.59	615,026.60	3.40%	Whitewood	1%, 2%	191,345.58	207,831.95	8.62%
Pollock	2%	105,051.68	104,840.47	-0.20%	Willow Lake	2%	58,589.08	73,427.37	25.33%
Presho	2%	146,173.46	140,306.62	-4.01%	Wilmot	2%	119,649.80	132,244.69	10.53%
Pringle	2%	19,977.37	20,195.27	1.09%	Winner	1%, 2%	1,348,963.13	1,408,768.69	4.43%
Quinn	1% GR/ST	7,283.91	8,180.45	12.31%	Witten	2%	9,649.14	9,143.15	-5.24%
Ramona	1%	12,665.27	19,045.13	50.37%	Wolsey	2%	129,803.82	157,594.93	21.41%
Rapid City	1%, 2%	45,271,584.62	47,540,320.68	5.01%	Wood	2%	2,410.68	8,375.62	247.44%
Redfield	1%, 2%	839,036.00	851,612.19	1.50%	Woonsocket	2%	178,851.63	222,211.48	24.24%
Reliance	1%, 2%	49,994.23	62,633.46	25.28%	Worthing	1%, 2%	97,413.94	109,919.78	12.84%
Reville	1%	26,307.71	13,091.97	-50.24%	Yale	1%	N/A	3,253.90	N/A
Roscoe	1%	58,054.04	79,015.27	36.11%	Yankton	1%, 2%	7,412,994.00	7,547,447.07	1.81%
Rosholt	1%	64,806.78	69,817.87	7.73%	TOTAL		\$275,340,008.42	\$286,386,165.56	4.01%

In fiscal year 2011, 256 communities imposed local sales and use taxes. The maximum local rate that can be levied in South Dakota is 2%. Cities may also impose a 1% municipal gross receipts tax which is levied in addition to the municipal sales tax. The gross receipts tax can be imposed on alcoholic beverages, eating establishments, lodging accommodations, ticket sales and admissions to places of amusement, or athletic and cultural events.

Tribal Tax Collection Agreements

The State of South Dakota and six Indian tribes have entered into tax collection agreements that cover sales, use and contractors' excise tax. On the Indian Country areas that are covered by a tax collection agreement, the state and the Tribe each have the ability to tax certain individuals and certain transactions. The state collects all state taxes in the Indian Country areas and also collects and remits the taxes in those areas for the respective Tribe.

<u>Tribe</u>	<u>2011 Rate(s)</u>	<u>FY2010 Remittance</u>	<u>FY2011 Remittance</u>	<u>% Increase (Decrease)</u>
Cheyenne River Sioux Tribe	2% ET, 4% ST, 1.5 Tourism	\$2,563,691.82	\$3,178,949.26	24%
Oglala Sioux Tribe	2% ET, 4% ST	2,922,189.10	3,165,565.43	8.33%
Rosebud Sioux Tribe	2% ET, 4% ST, 1.5 Tourism	1,691,240.08	2,382,668.55	40.88%
Sisseton Wahpeton Oyate	2% ET, 4% ST	2,205.06	1,563.35	(29.10%)
Standing Rock Sioux Tribe	2% ET, 4% ST, 1.5 Tourism	838,125.67	989,897.46	18.11%
Yankton Sioux Tribe	2% ET, 4% ST	N/A	90,703.46	N/A
Total		\$8,017,451.73	\$9,809,347.51	22.35%

Tourism Tax

The division also administers the tourism or seasonal tax, which is an additional 1.5% tax on certain lodging and amusement services that is imposed for tourism promotion. The tourism tax rate changed effective July 1, 2009, from 1% to 1.5% through June 30, 2013. The tourism tax on lodging establishments, campgrounds, motor vehicle rentals, recreational equipment rentals, recreational services, spectator events and visitor attractions applies year-round. The tourism tax on visitor-intensive businesses applies during the months of June, July, August, and September. For FY2011, tourism tax collections, including audit collections, totalled \$9,488,451.91.

Compliance and Reviews

The division's Revenue Agents are responsible for locating, monitoring and investigating any leads they receive concerning businesses or individuals who may be operating in South Dakota without a tax license or those who fail to properly collect or remit sales, use or contractors' excise tax. They accomplish this using a variety of resources, including Internet searches, newspapers, bulletin boards, government contracts, building permits, information from other government agencies, and leads from audits or reviews. In fiscal year 2011, the Business Tax Division closed 14,152 cases and collected \$2,719,658.31.

The review program was implemented by the division as a means to increase compliance with the state's tax laws. By evaluating a taxpayer's records, Revenue Agents are able to identify any outstanding tax obligations the taxpayer may have to the State. As such reviews require less time to conduct, use of the program enables the department to contact a greater number of taxpayers including smaller businesses that may never come up for audit. Reviews also provide one-on-one tax law education to the taxpayer, increasing future compliance and collections, and operate more efficiently in terms of staff time and travel costs. In fiscal year 2011, the division conducted 669 reviews and collected \$832,685.27.

SALES TAX/(CONTINUED)

Special Events

Revenue Agents license and collect state sales, municipal and tourism tax at various special events across the state throughout the year. The table below compares tax collected from some of South Dakota's major special events from fiscal year 2011 to the previous year.

Total Tax Collected from Special Events 2010 - 2011

	<u>FY2010*</u>	<u>FY2011*</u>	<u>% Increase (Decrease)</u>
Brookings Art Festival	\$31,351.13	\$27,386.02	(12.65%)
Brown County Fair	23,727.33	25,739.59	8.48%
South Dakota State Fair	104,937.88	121,150.86	15.45%
Northern Hills Motorcycle Rally**	927,742.23	1,082,012.59	16.63%
Southern Hills Motorcycle Rally ***	214,747.51	241,957.99	12.67%
Central States Fair	47,059.53	44,313.62	(5.83%)
Sioux Empire Fair	29,833.12,	39,209.00	31.43%
Spearfish Arts Festival	14,263.99	14,658.01	2.76%
TOTAL	\$1,393,662.72	\$1,596,427.68	14.55%

*Total tax includes state, municipal, municipal gross receipts, and tourism taxes

**Northern Hills Rally includes Meade, Lawrence and Butte Counties, as well as the cities within those counties

***Southern Hills Rally includes Pennington, Custer, and Fall River Counties, as well as the cities within those counties.

Construction Refund Programs

South Dakota offers various programs that allow businesses to seek a refund of sales, use and contractors' excise tax, or delay the payment of sales and use taxes. The Business Tax Division monitored and processed refunds or tax savings totaling more than \$66 million since fiscal year 2002. The total amount refunded in fiscal year 2011 was \$3,032,318. Information on the types of programs offered in fiscal year 2011 is shown below.

New and Expanded Construction Refund

This program now includes new and expanded construction plus agricultural refunds. Project costs must be greater than \$10 million. The program provides for refunds of contractors' excise tax and sales and use tax on project costs based on the following scale: \$0-\$10 million (no refund); \$10-\$40 (45%); \$40-\$500 million (55%); \$500 million and larger (no refund).

Wind Energy

This program is available for new and expanded wind farms, electric transmission lines and new facilities that manufacture, assemble or distribute wind or transmission components. Project costs must be greater than \$10 million. The program provides for refunds of contractors' excise tax and sales and use tax on project costs based on the following scale: \$0-\$10 million (no refund); \$10-\$40 million (45%); \$40 million and larger (55%).

Large Wind Farms

New and expanded wind generation facilities producing more than 10 megawatts of electricity qualify for this program. Such projects receive a tax rate reduction with project owners paying 1% excise tax instead of 2%. The owner must pay the tax in four equal installments. No exemption or refund is given for sales or use tax.

Small Wind Farms

This program is available for new and expanded wind generation facilities that produce 10 megawatts of electricity or less and have project costs greater than \$500,000. It provides for refunds of 100% of the excise tax. No exemption or refund is given for sales or use tax.

Streamlined Sales Tax Project

The Streamlined Sales Tax Project is a multi-state effort to design, test and implement a system to radically simplify sales and use tax collection and administration by retailers and states. South Dakota has been involved in the project since its inception, and is one of its full member states. Full members are those states whose sales tax laws and policies are in substantial compliance with each of the provisions of the Streamlined Sales and Use Tax Agreement (SSUTA).

The SSUTA was officially implemented on October 1, 2005, and effective that date, retailers can register to collect or pay sales taxes in the Agreement's member states through a Web-based centralized registration system. Since such registration began, the Business Tax Division has issued 1,611 tax licenses.

Our employees are our greatest resource...

Pierre Revenue Supervisor Alison Jares works with Construction Refund information. A cumulative report of construction tax recipients refunded under SDCL Chapter 10-45B can be accessed in the statistics section of the Business Tax Division web page.



SPECIAL TAXES

PROPERTY & SPECIAL TAXES DIVISION

-- MICHAEL HOUDYSHELL, DIRECTOR

Division Overview

The Division of Special Taxes administers taxes on tobacco, alcohol, banks, estates, minerals, and several small industries; regulates the tobacco and alcohol industries; and administers the state's sales and property tax refund program for the elderly and disabled. In the last 10 years, revenues from the division have ranged from a high of \$155.7 million in 2008 to \$97.1 million in 2002, the year after voters repealed the inheritance tax. In fiscal year 2011, revenues in this division showed a decrease of \$18,365,091 from 2010 with total collections of \$102,098,046.

Our employees are our greatest resource...

Revenue Section Coordinator Carol Logan has proudly served the citizens of South Dakota for 36 years!



Additional information on the Special Taxes Division, including alcohol license and tobacco information, forms, and general special taxes topics can be found at <http://www.state.sd.us/drr2/prospectax/index.htm>.

Alcohol Regulation

If an alcohol licensee is caught selling alcohol to a person under the age of 21, the Department penalizes the licensee with a fine or suspension. In fiscal year 2011, a total of \$130,800 in civil penalties was collected from businesses/alcohol licensees who made illegal sales to persons under the age of 21.

If an alcohol licensee has been caught selling alcohol to a person under the age of 21 three or more times in a 24-month period, the Department will typically suspend the alcohol license for 14 days. Licenses may also be suspended for other violations, such as after-hour sales or selling alcohol to someone who is obviously intoxicated. In the calendar year 2011, the Department suspended the license of six businesses for three days each, one business for seven days, and five businesses for 14 days each.

The Department receives information on underage sales from county clerks of court and from city and county law enforcement officers when they conduct alcohol compliance checks. In fiscal year 2011, twelve cities (Aberdeen, Belle Fourche, Brookings, Hermosa, Madison, Mitchell, Rapid City, Sioux Falls, Sisseton, Spearfish, Vermillion, and Watertown) conducted compliance checks. In addition, ten counties (Aurora, Brookings, Butte, Codington, Custer, Lincoln, Minnehaha, Miner, Pennington, and Roberts) conducted compliance checks. The chart on the following page indicates the number of compliance checks and the failure rate for the past five calendar years.

SPECIAL TAXES/ (CONTINUED)

Alcohol Beverage Stings: 2006 - 2010

<u>Calendar Year</u>	<u>Number of Checks</u>	<u>Number of Illegal Sales</u>	<u>Failure Rates</u>
2006	606	76	12.5%
2007	579	96	16.6%
2008	950	139	14.2%
2009	1177	182	15.5%
2010	890	135	15.2%
Total	4202	628	14.9% (avg.)

Sales and Property Tax Refund Program

The Sales or Property Tax Refund Program is a method of returning to senior and disabled citizens, within certain income guidelines, some of the dollars they pay each year in sales and property taxes. The program has been in effect since 1974 and during that period has returned over \$29 million to qualifying South Dakotans. The following chart indicates the number of refunds requested and approved as well as the dollars refunded for the past five fiscal years.

Sales and Property Tax Refunds: 2007 - 2011

<u>Fiscal Year</u>	<u>Applications Received</u>	<u>Applications Approved</u>	<u>Dollars Refunded</u>
2007	3259	3057	\$624,468
2008	3081	2823	564,639
2009	3115	2909	600,982
2010	2680	2411	501,060
2011	2784	2392	466,125
Total	14,919	13,592	\$2,757,274

Additional information on the Property and Sales Tax Relief Programs is available on the department's website at <http://www.state.sd.us/drr2/prospectax/property/relief.htm#1> .

PROPERTY TAXES

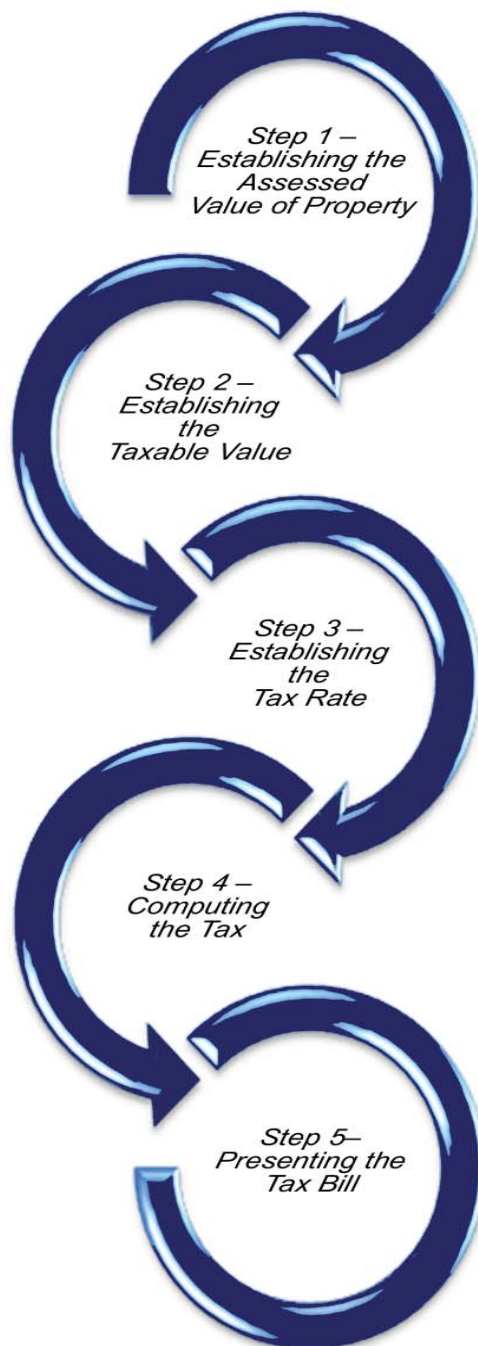
PROPERTY & SPECIAL TAXES DIVISION

-- MICHAEL HOUDYSHELL, DIRECTOR

Property taxes are the primary source of funding for school systems, counties, municipalities and other units of local government. The state does not collect or spend any property tax money. Each county administers its own property tax system; the department's authority is limited to assisting local governments in making property tax assessments that are fair and in compliance with the law.

Steps in the Determination of Property Taxes

The following provides the steps that are common to the application of property taxes in each government unit (excluding centrally assessed properties).



- **The full and true (assessed) value of all property in the state is determined as of the legal assessment date which is Nov. 1 prior to the assessment year (November 1, 2010 for the 2011 assessment year, taxes payable in 2012).**

Each Director of Equalization in the 66 counties in the State is to assess all real property within the county at the full and true value. Assessment notices are sent to the property owner on or before March 1 of each year.

- **Determine the taxable value of the property.**

All property is to be assessed at full and true value. Then the property is equalized to 85% for property tax purposes. If the county is at 100% of full and true value, then the equalization factor (the number to get to the 85% taxable value) would be 0.85.
(example: full and true value of \$120,000 x 85%
= taxable value of \$102,000)

- **Determine the tax levy for all taxing jurisdictions which can tax the property.**

Tax levies for each taxing jurisdiction are determined by dividing the tax levy request by the total taxable value within the taxing jurisdiction and multiplying the result by 1,000. For example, if the taxable value within a city is \$10,000,000 and the city has a tax levy request of \$100,000, the tax levy is computed as follows:

Tax levy – (tax levy requested divided by taxable value) X 1,000
Tax levy – (\$100,000/\$10,000,000) X 1,000 = \$10 per thousand

- **Taxes are computed for individual properties.**

Taxes are computed by multiplying the taxable value times the tax levy. For example, if the person has property with taxable value of \$102,000, the property taxes for city purposes would be computed as follows:

Taxes = taxable value (Tax levy divided by 1,000)
Taxes = \$102,000 x (\$10/1,000) = \$1,020

This same step is done for this property for each taxing district that can tax the property, such as county, city, school, fire district, etc. The sum would be the total property taxes due on the property.

- **Tax bills are sent to property owner.**

Taxes are due and payable January 1 of the year following assessment (2011 assessment, taxes are due and payable January 1, 2012). They do not become delinquent if one-half of the taxes are paid before May 1 and the remaining half paid before November 1.
All property taxes are paid to the county treasurer in the county where the property is located.

PROPERTY TAXES/(CONTINUED)

In 2011, South Dakota property owners paid more than \$1 billion to fund local governments and provide K-12 education for the state's children. The following two tables show the portion of the total taxes paid by each classification of property, and where the money collected is spent.

Property Taxes: Who Pays

Year Taxes Are Payable	<u>Agricultural*</u>	<u>% of Total</u>	<u>Owner - Occupied</u>	<u>% of Total</u>	<u>Commercial</u>	<u>% of Total</u>	<u>Utilities</u>	<u>% of Total</u>	<u>Special Assessments</u>	<u>% of Total</u>	<u>TOTAL</u>
2001	\$151,921,309	25.04	\$212,091,514	34.96	\$204,708,863	33.74	\$29,235,927	4.82	\$8,783,550	1.45	\$606,741,163
2002	168,958,956	25.33	243,144,972	36.45	215,460,653	32.30	30,814,549	4.62	8,774,866	1.32	667,153,996
2003	176,354,349	25.24	258,757,664	37.03	222,277,922	31.81	31,052,406	4.44	10,279,053	1.47	698,721,394
2004	183,027,601	25.24	273,180,527	37.67	229,836,765	31.69	30,282,567	4.18	8,835,378	1.22	725,162,838
2005	190,743,858	25.21	289,985,539	38.32	236,891,146	31.31	28,975,635	3.83	10,120,766	1.34	756,716,943
2006	202,173,330	25.17	309,831,254	38.58	252,523,983	31.44	27,191,751	3.39	11,422,093	1.42	803,142,410
2007	211,381,559	24.93	330,332,434	38.96	267,236,569	31.52	25,266,119	2.98	13,675,583	1.61	847,892,758
2008	219,709,028	24.87	348,147,127	39.41	277,552,244	31.42	22,957,006	2.60	15,057,152	1.70	883,422,556
2009	231,587,046	24.81	368,765,290	39.51	292,805,927	31.37	23,025,217	2.47	17,091,242	1.83	933,274,722
2010	239,627,362	24.50	388,867,662	39.76	307,499,562	31.44	23,463,130	2.40	18,467,990	1.89	977,925,706
2011	240,496,832	23.97	403,337,138	40.21	312,194,141	31.12	22,646,984	2.26	24,485,447	2.44	1,003,160,542

* Agricultural property taxes include NA-Z taxes

Property Taxes: Where the Money Goes

For Taxes Payable In	<u>County</u>	<u>% of Total</u>	<u>Municipalities</u>	<u>% of Total</u>	<u>Schools</u>	<u>% of Total</u>	<u>Townships</u>	<u>% of Total</u>	<u>Special Assessments</u>	<u>% of Total</u>	<u>TOTAL</u>
2001	\$154,771,962	25.51	\$76,628,850	12.63	\$356,034,460	58.68	\$10,522,342	1.73	\$8,783,550	1.45	\$606,741,163
2002	165,080,172	24.74	81,296,731	12.19	400,493,843	60.03	11,508,383	1.72	8,774,866	1.32	667,153,996
2003	172,099,579	24.63	87,349,216	12.50	417,257,623	59.72	11,735,923	1.68	10,279,053	1.47	698,721,394
2004	182,029,759	25.10	92,005,243	12.69	430,465,020	59.36	11,827,439	1.63	8,835,378	1.22	725,162,838
2005	190,946,759	25.23	96,379,649	12.74	447,203,111	59.10	12,066,658	1.59	10,120,766	1.34	756,716,943
2006	201,763,441	25.12	102,625,076	12.78	475,005,462	59.14	12,326,339	1.53	11,422,093	1.42	803,142,410
2007	215,590,027	25.43	109,964,079	12.97	495,863,786	58.48	12,798,789	1.51	13,675,583	1.61	847,892,264
2008	231,487,473	26.20	116,772,552	13.22	506,618,292	57.35	13,487,087	1.53	15,057,152	1.70	883,422,556
2009	248,284,680	26.60	124,481,492	13.34	529,246,426	56.71	14,170,891	1.52	17,091,242	1.83	933,274,722
2010	267,475,363	27.35	131,066,116	13.40	546,181,894	55.85	14,734,342	1.51	18,467,990	1.89	977,925,706
2011	268,440,562	26.76	133,749,586	13.33	560,022,922	55.83	16,462,026	1.64	24,485,447	2.44	1,003,160,542

PROPERTY TAXES/(CONTINUED)

Taxable Valuations by County

The following chart indicates the amount of taxable value in each of South Dakota's 66 counties, broken out by the class of property. The "Other" category includes residential property not occupied by the owner, commercial property, and utility property.

Taxable Valuations: 2011 Taxes Payable 2012

<u>County</u>	<u>Ag Real Valuation</u>	<u>Owner-Occupied Valuation</u>	<u>Other Valuation</u>	<u>Total Valuation</u>	<u>County</u>	<u>Ag Real Valuation</u>	<u>Owner-Occupied Valuation</u>	<u>Other Valuation</u>	<u>Total Valuation</u>
Aurora	\$345,529,924	\$38,809,381	\$20,818,364	\$405,157,669	Hyde	\$277,310,143	\$18,094,611	\$21,530,455	\$316,935,209
Beadle	656,169,410	392,964,121	297,534,940	1,346,668,471	Jackson	126,125,046	15,302,741	12,970,928	154,398,715
Bennett	117,101,696	18,227,118	8,958,198	144,287,012	Jerauld	231,878,384	28,717,087	21,571,960	282,167,431
Bon Homme	316,575,836	89,946,501	38,495,074	445,017,411	Jones	178,493,926	12,065,441	10,947,007	201,506,374
Brookings	530,231,805	889,327,240	630,854,090	2,050,413,135	Kingsbury	464,773,610	101,391,872	70,595,830	636,761,312
Brown	738,978,385	1,197,301,724	707,354,606	2,643,634,715	Lake	390,436,725	353,715,330	207,564,369	951,716,424
Brule	325,932,765	87,401,971	52,559,383	465,894,119	Lawrence	33,982,019	1,032,177,862	923,527,694	1,989,687,575
Buffalo	96,538,324	1,153,192	1,093,603	98,785,119	Lincoln	541,495,510	2,379,288,800	889,642,893	3,810,427,203
Butte	162,563,848	263,493,643	130,054,614	556,112,105	Lyman	344,729,285	36,121,449	31,343,207	412,193,941
Campbell	178,660,323	25,608,463	15,946,323	220,215,109	Marshall	387,431,887	104,401,077	83,938,651	575,771,615
Charles Mix	524,871,601	115,467,763	81,683,008	722,022,372	McCook	426,507,346	123,497,302	53,017,670	603,022,318
Clark	414,282,270	44,402,484	70,628,874	529,313,628	McPherson	364,198,382	36,654,894	29,599,418	430,452,694
Clay	337,230,667	264,185,830	163,083,717	764,500,214	Meade	335,975,262	902,287,463	369,936,701	1,608,199,426
Codington	360,598,513	919,064,669	522,590,750	1,802,253,932	Mellette	134,220,756	12,117,000	6,233,263	152,571,019
Corson	140,434,459	9,222,827	24,911,577	174,568,863	Miner	335,913,433	25,257,359	38,928,924	400,099,716
Custer	92,298,953	393,559,043	275,739,247	761,597,243	Minnehaha	583,944,463	5,968,768,418	4,108,067,784	10,660,780,665
Davison	265,250,351	519,163,253	372,375,844	1,156,789,448	Moody	418,543,918	141,928,669	41,969,154	602,441,741
Day	363,905,031	99,409,079	123,889,892	587,204,002	Pennington	204,392,846	3,656,435,501	2,697,482,560	6,558,310,907
Deuel	376,844,154	97,629,900	69,745,292	544,219,346	Perkins	251,530,707	27,574,789	19,237,055	298,342,551
Dewey	125,246,048	11,452,698	12,486,639	149,185,385	Potter	323,876,412	41,803,444	29,643,996	395,323,852
Douglas	258,880,062	36,210,514	17,944,126	313,034,702	Roberts	390,315,407	142,741,584	81,555,017	614,612,008
Edmunds	436,546,121	85,971,021	68,549,189	591,066,331	Sanborn	295,773,611	30,703,620	19,735,974	346,213,205
Fall River	94,038,900	194,715,875	180,587,243	469,342,018	Shannon	22,467,825	2,313,140	2,338,561	27,119,526
Faulk	388,492,514	21,302,905	11,127,310	420,922,729	Spink	810,643,784	84,972,309	65,874,656	961,490,749
Grant	353,381,605	152,675,168	163,589,089	669,645,862	Stanley	183,644,899	110,226,301	68,209,637	362,080,837
Gregory	295,921,397	42,710,422	22,354,417	360,986,236	Sully	433,781,290	35,284,984	45,727,046	514,793,320
Haakon	258,741,413	27,999,079	20,450,612	307,191,104	Todd	87,342,328	8,980,661	10,955,266	107,278,255
Hamlin	306,774,294	154,359,970	97,241,855	558,376,119	Tripp	446,274,321	83,798,367	44,337,509	574,410,197
Hand	605,560,905	60,947,784	32,351,613	698,860,302	Turner	480,662,300	179,879,345	64,937,003	725,478,648
Hanson	260,704,831	60,988,867	26,358,800	348,052,498	Union	416,187,609	653,496,010	304,722,072	1,374,405,691
Harding	155,126,660	12,202,017	31,417,824	198,746,501	Walworth	209,182,467	81,624,097	68,639,847	359,446,411
Hughes	197,555,926	617,080,318	302,767,897	1,117,404,141	Yankton	331,290,187	664,702,620	349,627,590	1,345,620,397
Hutchinson	539,612,558	124,668,515	80,683,771	744,964,844	Ziebach	114,693,824	3,025,480	5,488,258	123,207,562

	<u>Ag Real Valuation</u>	<u>Owner-Occupied Valuation</u>	<u>Other Valuation</u>	<u>Total Valuation</u>
State Totals	\$21,198,601,461	\$24,168,972,982	\$15,476,125,736	\$60,843,700,179

PROPERTY TAXES/ (CONTINUED)

The following chart shows the change in each classification of property, as well as the change in each classification's percentage of total valuation for taxes payable from 2001 to 2011.

Taxable Valuations by Category: 2001-2011

For Taxes Payable in	<u>Agricultural*</u>	% of <u>Total</u>	Owner- <u>Occupied</u>	% of <u>Total</u>	<u>Commercial</u>	% of <u>Total</u>	<u>Utilities</u>	% of <u>Total</u>	<u>TOTAL</u>
2001	11,062,162,236	35.93	11,177,769,905	36.30	7,445,797,194	24.18	1,106,170,590	3.59	30,791,899,925
2002	11,549,861,305	35.68	11,934,525,973	36.87	7,753,707,599	23.95	1,134,307,137	3.50	32,372,402,014
2003	12,277,695,126	35.43	13,038,052,643	37.62	8,212,742,597	23.70	1,126,545,169	3.25	34,655,035,535
2004	13,085,504,017	35.07	14,269,607,712	38.25	8,811,374,289	23.62	1,141,657,751	3.06	37,308,143,769
2005	14,015,749,247	35.03	15,523,846,537	38.79	9,362,992,929	23.40	1,113,225,824	2.78	40,015,814,537
2006	15,097,290,060	34.80	16,954,988,100	39.08	10,238,689,250	23.60	1,093,714,459	2.52	43,384,681,869
2007	16,427,689,981	34.54	18,633,455,339	39.18	11,336,818,639	23.84	1,158,792,774	2.44	47,556,756,733
2008	17,688,985,934	34.23	20,353,223,881	39.39	12,504,672,828	24.20	1,124,579,669	2.18	51,671,462,309
2009	19,058,117,169	34.49	21,687,103,039	39.25	13,334,072,762	24.13	1,169,829,792	2.12	55,249,122,762
2010	19,690,137,457	34.11	22,768,420,477	39.44	14,051,480,469	24.34	1,222,801,442	2.12	57,732,839,845
2011	19,691,529,066	33.38	23,726,031,354	40.22	14,345,035,001	24.32	1,222,426,811	2.07	58,985,022,232

*Agricultural value includes NA-Z value for pay 2000 to present

Our employees are our greatest resource...



On May 19, 2011, Pierre Property Tax Specialist Colleen Skinner was honored to receive the 2011 Excellent Service to South Dakota County Officials award. The award acknowledges an individual or organization outside county government who provided significant contributions to South Dakota county officials and to South Dakota County Government. The recipient is chosen by the executive board from the nominations submitted by the South Dakota Association of County Officials.

PROPERTY TAXES/ (CONTINUED)

Limits on Property Taxes

The South Dakota Legislature has enacted two independent systems that limit the growth of property taxes. The first is the state aid to education payments. These payments effectively replace property taxes for schools that would otherwise be paid by owners of agricultural and owner-occupied homes. The second system is the caps placed on the property taxes collected by all levels of local government (except schools). These caps limit the local governments' property tax collections to the amount they collected the previous year, plus small increases for inflation and new construction.

State Aid to Education Payments

Agricultural and owner-occupied property owners benefit from the funding for education provided by the state. The state provides extra revenue for K-12 education that would otherwise have to be paid by these property owners. The benefit is provided to the taxpayer through a tax rate reduction for the school general fund levy. The school general fund levy rates for taxes payable in 2012 are set statewide as follows:

Ag	\$2.388/\$1,000 of value
Owner-Occupied	\$3.965/\$1,000 of value
Other	\$8.491/\$1,000 of value

Property Tax Caps

State law limits the amount of property taxes that local governments (counties, cities, townships, fire districts, etc.) can collect from their property owners. Market increases in the value of the property within the taxing district automatically decrease the property tax rates upon that property to ensure that the caps are not exceeded. Local governments are limited to the amount of property taxes they collected last year, plus an increase for inflation based upon the consumer price index (but not more than 3%) and for new construction within the taxing jurisdiction.

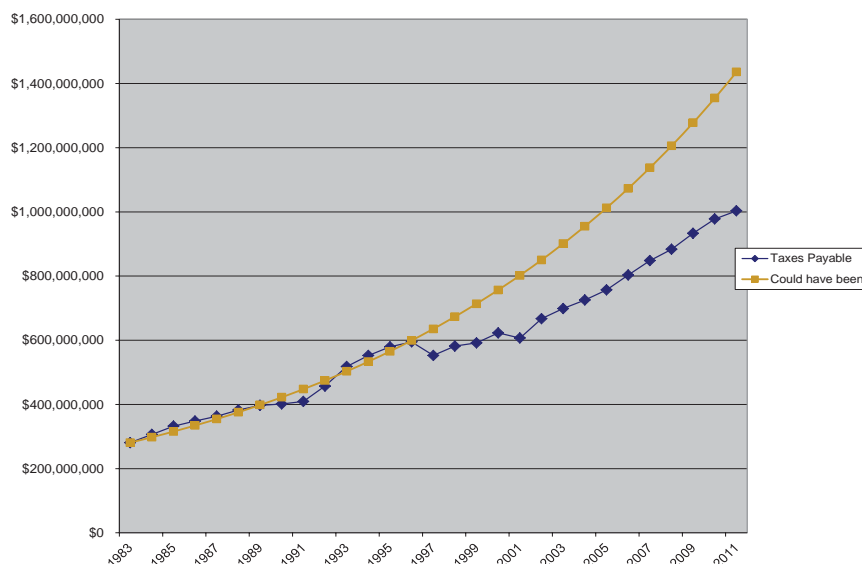
An example will illustrate how the property tax caps work. Assume that last year, the total property valuation within a city was \$100 million and the city collected \$300,000 from property taxes. To collect the \$300,000, the city assessed property within the city a tax of \$3.00/\$1,000 of assessed value. This year, the consumer price index is 2%, a new subdivision was created within the city with a total valuation of \$1 million, and a hot real estate market increased the value of the existing property within the city to \$109 million. The city can increase the \$300,000 it received from property taxes last year by 3% (2% for the CPI and 1% for new construction) for a total of \$309,000. To prevent the city from going over the cap, the tax rate applied to the \$110 million of property within the district (market value of \$109 million plus the new \$1 million subdivision), is automatically lowered from last year's rate of \$3.00/\$1,000 of value to \$2.81/\$1,000 of value.

PROPERTY TAXES/ (CONTINUED)

Combined Effect of Tax Caps and State Aid Payments

Historically, property taxes have increased at a rate of about 6% per year since 1947. Property tax caps and state aid to education payments have significantly slowed this increase. If the historical rate of property tax growth had continued through the 1990's, current property owners would be paying over \$1.40 billion in property taxes. Instead, property owners are paying just over \$1 billion of property taxes. The following chart shows the historical growth of property taxes and the actual growth of property taxes. These programs were implemented in 1997.

Historical Growth of Property Taxes v. Actual Growth



Effective Property Tax Rates

The following table shows the effective tax rate for owner-occupied, agricultural, and commercial property in 25 South Dakota jurisdictions payable in 2011. The “Other” category includes commercial property, utility property, and residential property not occupied by the owner. The effective tax rate is the percentage of a property’s assessed (market) value that will be paid in taxes. For example, if the effective tax rate is 2%, and the assessed (market) value of the property is \$150,000, then the taxes will be about \$3,000 per year. The “Agricultural” effective tax rate is for the agricultural property in the township around the cities on the list.

<u>City</u>	<u>Agricultural Effective Tax Rate</u>	<u>Owner- Occupied Effective Tax Rate</u>	<u>Other Effective Tax Rate</u>	<u>City</u>	<u>Agricultural Effective Tax Rate</u>	<u>Owner- Occupied Effective Tax Rate</u>	<u>Other Effective Tax Rate</u>
Aberdeen	1.23	1.67	2.06	Mobridge	1.59	2.42	2.95
Belle Fourche	1.06	1.69	2.08	Pierre	1.06	1.45	1.84
Brandon	1.07	1.49	1.88	Rapid City	1.24	1.44	1.85
Brookings	1.25	1.48	1.91	Redfield	1.02	2.81	3.35
Canton	0.92	1.77	2.15	Sioux Falls	0.97	1.34	1.75
Chamberlain	1.08	1.92	2.30	Sisseton	1.06	1.95	2.33
Dell Rapids	1.14	1.64	2.03	Sturgis	1.24	1.88	2.26
Flandreau	1.15	1.97	2.37	Vermillion	1.29	1.90	2.42
Hot Springs	1.19	1.91	2.29	Watertown	1.00	1.27	1.66
Huron	1.17	1.99	2.37	Webster	1.21	1.94	2.32
Madison	0.96	1.76	2.18	Winner	1.05	1.67	2.06
Milbank	1.20	1.64	2.03	Yankton	1.14	1.48	1.86
Mitchell	1.20	1.71	2.11	Statewide	1.04	1.45	1.85

FUEL TAX & MOTOR VEHICLE LICENSING

MOTOR VEHICLES DIVISION

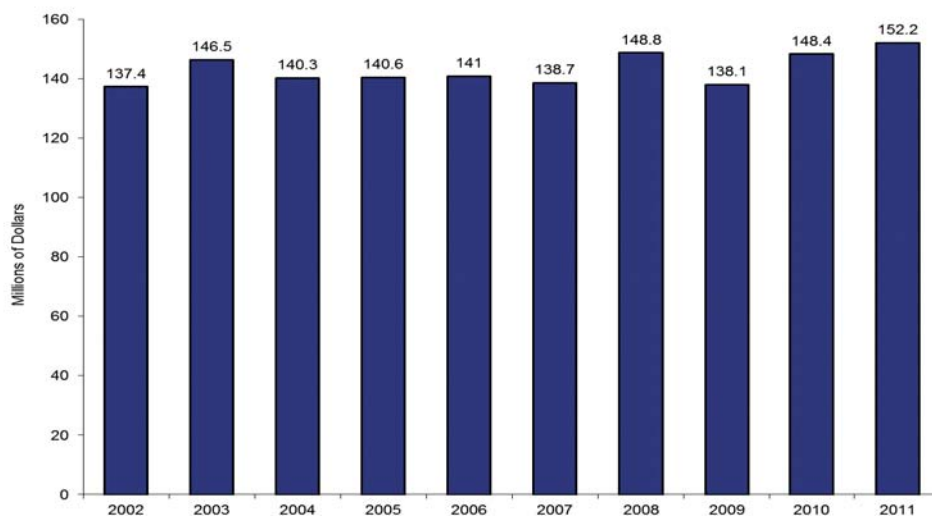
-- *DEB HILLMER, DIRECTOR*

The Division of Motor Vehicles' responsibilities include motor vehicle excise tax; title and registration; motor fuel tax; special fuel tax; interstate fuel tax (IFTA); fuel tax refunds; prorate (IRP) and commercial licensing; Unified Carrier Registration (UCR) licensing; and dealer licensing.

Total Fuel Tax Revenues

Gasoline, ethyl and methyl alcohol, aviation fuel, jet fuel, liquid petroleum gas (LPG), and diesel fuel all fall into the fuel tax category. In fiscal year 2011, total fuel tax revenues amounted to \$152,242,306. Motor fuel (gasoline) and special fuel taxes accounted for 88.1% of the total fuel tax revenues for fiscal year 2011 with 10.5% from tank inspection fees, 0.9% from interstate/IFTA fuel taxes, and the remaining 0.5% from the aviation fuel tax. The chart below compares South Dakota's fuel tax revenues for the past 10 years.

Total Fuel Revenues (2002-2011)



Motor Fuel Tax Refunds

Motor fuel used to operate agricultural and commercial equipment, other than aircraft, off of roads and highways, is not subject to fuel tax. Consumers documenting this off-highway usage receive motor fuel tax refunds. During fiscal year 2011, there were 3,948 refunds totaling \$878,607.80 as compared to 4,369 refunds totaling \$959,642.19 issued the previous fiscal year. The average refund was \$222.55 in fiscal year 2011, as compared to \$200.25 in 2010 and \$258.22 in 2009.

The 2011 South Dakota Legislature repealed the motor fuel tax refund program for non-highway use of motor and special fuels. In lieu of issuing refunds for the off-road use of fuel, the Legislature enacted provisions to annually transfer \$1.41 million to the following areas: county and townships for road use based upon a pro rata basis; the Coordinated Natural Resources Conservation Fund; The Value-Added Agricultural Subfund; and the Department of Agriculture to be used for a grant to the Northern Crops Institute.

MOTOR VEHICLES/(CONTINUED)

Titles and Registration

Any vehicle (including mobile homes, trailers, snowmobiles, and large boats) that operates on South Dakota's roadways and waterways must have a title verifying ownership. Vehicles and boats used on public roadways or waterways must also be registered. Registration is confirmed by the issuance of a license plate, decal or permit. Title and registration revenues for fiscal year 2011 totaled \$98,294,487 which were distributed as follows: 60.1% to the Department of Transportation, 29.5% to local governments, and the remaining 10.4% to other sectors.

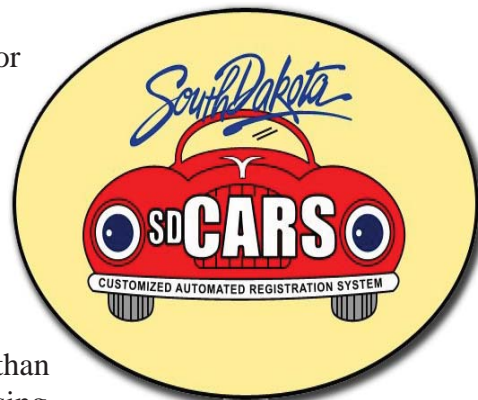
Title and Registration Revenues

	<u>FY2010</u>	<u>FY2011</u>	<u>Percent Change</u>
License Plate Fees - State's Share*	\$ 2,616,756	\$ 2,694,250	2.96%
License Plate Fees - Counties', Cities', Townships' Share	28,379,739	29,004,199	2.20%
Snowmobiles	220,748	143,580	-34.96%
Boats	1,248,895	872,016	-30.18%
Temporary Special Permits	61,575	58,521	-4.96%
Mobile Home Plates	7,530	8,505	12.95%
Dealer Fees	238,458	226,369	-5.07%
Duplicate Plates, Replacement Plates	221,432	212,489	-4.04%
Title and Penalty Fees	2,265,666	2,370,766	4.64%
Trailer ID Fees	57,829	62,827	8.64%
Motorcycle Safety Education Fees	499,324	521,203	4.38%
Mobile Home Registration Fees - State's Share	87,464	76,207	-12.87%
Other Vehicle 3% Excise Tax	54,300,403	59,030,600	8.71%
Snowmobile 3% Excise Tax	315,565	379,779	20.35%
Register of Deeds Fees	174,706	190,090	8.81%
DENR - Solid Waste Fees	1,158,032	1,180,658	1.95%
DPS - Highway Patrol Fees	118,537	1,262,428	
Total Receipts	\$91,854,122	\$98,294,487	7.01%

*State Motor Vehicle Fund, License Plate Special Revenue Fund

Motor Vehicle Registration Options

Several options are available to South Dakotans to renew their motor vehicle registration. In addition to the regular options of renewing in person at the county Treasurer's Office or by mail through the county, the Division of Motor Vehicles also offers online Internet renewal. The South Dakota Customized Automated Registration System, can be accessed at www.SDcars.org and is available any time, day or night. Motor vehicle owners can complete a vehicle's registration renewal from 90 days until 10 days prior to a vehicle's registration expiration date. Online renewals are not accepted less than 10 days before the expiration date in order to allow time for processing.



MOTOR VEHICLES/ (CONTINUED)

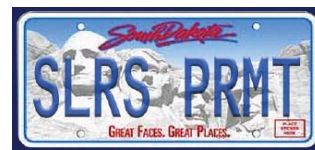
Registration Options (continued)

Vehicle owners wanting to renew online must enter an identification number along with their date of birth. In the case of a company, detailed instructions and a password that must be used in the online renewal process are provided by mail. Delivery of the registration and license plate decals is completed by regular mail and may take up to 10 days for delivery. In addition to the registration and mailing fees, a convenience fee of \$1.00 per vehicle is assessed to cover bank processing fees.



Through SDcars.org, motor vehicle owners can choose to receive their vehicle registration renewal reminder by regular mail, email notification, or opt to receive no renewal notice. Additional information on selecting a notification preference is available in the “Remind Me” section of the SDcars.org website.

A vehicle owner considering selling their vehicle in a private sale can obtain a seller’s permit online. This permit allows a buyer to drive during the interval between purchase and registration for a period of 30 days or upon registration whichever comes first. This is available through the “SLRS PRMT” link at SDcars.org.



In South Dakota, when a vehicle is sold or transferred, the sale must be reported. A report of sale (ROS) must be completed by the seller and serves as a notification of a sale. While this does not generate any



action against the title or registration record, this may protect the seller from liability that may result from moving or operating a vehicle after the date of sale. An ROS between private parties is mandatory and must be filed within 15 days of the date of sale. The report of sale option is available in the “SOLD” section of SDcars.org.

Another registration renewal option is utilizing a motor vehicle registration self-service terminal (SST). The 24-hour SST is a fully automated motor vehicle registration renewal station and dispenses license renewal tags on the spot. Vehicle owners from any county can use the terminal with the proper identification. A vehicle owner can navigate through the easy touch screen (voice assistance available) with a valid South Dakota driver’s license, South Dakota identification card, or if a company, the information provided on its renewal notice. Once the payment has been submitted and the transaction is completed, the license renewal tags and vehicle registration are dispensed directly from the machine. The SST allows vehicle owners to register up to 90 days prior and 30 days after the expiration of their current license tags. A \$2 convenience fee per vehicle is assessed. Self-service terminals are currently operating in the following locations: the Public Safety Building on Kansas City Street in Rapid City, the Sioux Falls Get-N-Go located at 10th and Arrowhead, the Sioux Falls Hy-Vee located at 49th and Louise, and in the Pierre Department of Revenue office located at 445 East Capitol Avenue.

Motor Vehicle Licensing

Commercial registration fees (licensing fees) are levied on intrastate and interstate motor carriers doing business in the state. The amount of the fee for interstate registration is determined by the percentage of miles the carrier travels in all the states. Over 98% of the fees are used by local governments to maintain public roads. Prorate registration revenues during fiscal 2011 were \$15,380,235. The largest share (57%) was distributed to the local government highway and bridge fund, with 41.5% to the counties, 1% to the license plate fund, and 0.5% to the motor vehicle fund.

LEGAL SERVICES

LEGAL DIVISION

-- *ANDREW L. FERGEL, CHIEF LEGAL COUNSEL*

The Legal Division is comprised of a Chief Legal Counsel, two full-time attorneys, four full-time Special Agents dedicated to the Investigative Services Bureau (ISB), one part-time fraud auditor, and one legal secretary. In addition to providing routine legal counsel to the department, the legal staff worked on 630 new cases during FY2011. The ISB Special Agents examined 157 individuals and businesses, of which 32 were investigated for tax and motor vehicle crimes. During FY2011, the Supreme Court issued one decision which affected the Department.

Supreme Court Summary

TRM ATM Corp. v. South Dakota Dept. of Revenue and Regulation, 2010 S. D. 90, 793 N.W.2d 1. The South Dakota Supreme Court affirmed that the fees TRM ATM received for rendering ATM services for other persons, namely sponsor banks and core-data companies, constituted a service and the company was required to pay South Dakota sales tax on all gross receipts, even though it was contractually obligated to pay some of the fees that it received to third-party merchants.

Our employees are our greatest resource...

Staff attorneys Rosa Yaeger and
Jon Richter discuss pending legal issues.



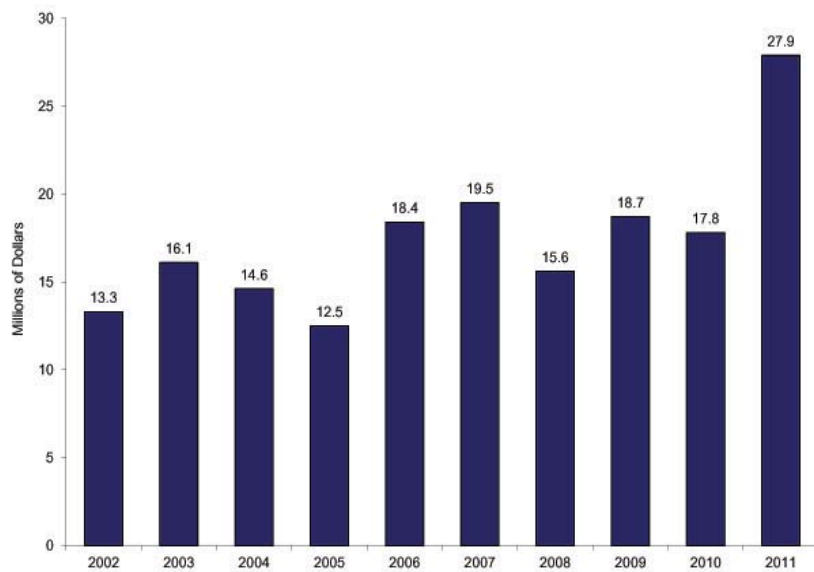
TAXPAYER AUDITS

AUDIT DIVISION

-- BRUCE CHRISTENSEN, DIRECTOR

To insure that businesses are correctly reporting their taxes, the department regularly performs audits. An audit may be conducted on any business, in-state or out-of-state, large or small, which may have a tax liability to South Dakota. Audits are used to correct errors businesses may make in reporting their taxes. Such corrections meant an additional \$27,931,021.70 in assessments (tax, penalty and interest) in fiscal year 2011.

Total Assessments: A Ten-Year Comparison



Audits and Assessments

	Number of <u>Audits</u>	<u>Assessments</u>
Sales, Use and Contractors' Excise Tax	1,936	\$27,369,016.33
Limited Scope Audits	7	16,662.81
Fuel Taxes, Prorate (IRP) and IFTA	304	545,342.56
TOTAL	2,247	\$27,931,021.70

ADMINISTRATIVE SERVICES

ADMINISTRATIVE SERVICES DIVISION

-- JOAN SERFLING, DIRECTOR

The Administrative Services Division manages the department's physical assets, budgetary data, collections, computer services, public relations, and training programs. Its purpose is to increase the efficiency of the operational divisions by providing them with the resources they need to meet their goals. The Division also manages the department's Remittance Center in Sioux Falls, which processed over \$880 million in payments in fiscal year 2011. Other agencies for which the Remittance Center collects revenues include Agriculture; Game, Fish and Parks; Social Services; Health; Environment and Natural Resources; Human Services; Unified Judicial System; Legislative Audits; and Retirement.

Fiscal Year 2011 - Remittance Center

Dollars processed for Revenue	\$704,865,334
Dollars processed for other agencies	175,955,329
<hr/>	
Total dollars processed	\$880,820,664
Total documents processed	500,181

Our employees are our greatest resource...

Sharon Brockel and Steve Rye process payments in the Sioux Falls Remittance Center.



SOUTH DAKOTA LOTTERY

NORM LINGLE, EXECUTIVE DIRECTOR

The South Dakota Lottery markets instant tickets and lotto games, and regulates video lottery to raise revenue for state programs and projects. Since its inception in 1987, the Lottery has distributed over \$2 billion in revenue.

The Lottery operates under the oversight of the South Dakota Lottery Commission, whose seven members meet quarterly to establish policy within the framework set by the legislature through law. The commission also reviews and approves major contracts and procurements, and consults on management and operation of all aspects of the Lottery. The Lottery has 29 employees, including administration, accounting, security, sales and marketing, and support staff. Its central office is in Pierre with regional sales and redemption offices in Sioux Falls and Rapid City, and a sales representative's office in Aberdeen.

Sales and Revenue

Total fiscal year 2011 Lottery revenue distributed to state funds was more than \$107.9 million. These revenues come from three main sources, as evidenced in the chart below.

*FY2011 Lottery Sales and Revenue**

	<u>Sales</u>	<u>Prizes</u>	<u>Commission</u>	<u>Revenue Distributed</u>
Instant Tickets	\$ 22,220,512	\$ 14,528,144	\$ 1,253,533	\$ 4,709,525
Lotto Tickets	24,950,954	12,647,216	1,317,531	8,171,703
Video Lottery**	583,419,926	391,650,298	95,884,814	95,097,079
			Total:	\$107,978,307

*Unaudited

**Video lottery sales are cash in; prizes are cash out; private share of net machine income is retailer commission.

Instant Tickets

The Lottery launched 28 new instant ticket games during fiscal year 2011. Prices for instant tickets ranged from \$1 to \$20, and prizes ranged from \$1 to \$300,000 as well as merchandise prizes.

At the close of fiscal year 2011, there were 597 licensed instant ticket retailers across the state. Retailers receive a 5% commission for selling tickets, a 1% commission for cashing winning tickets with prizes up to \$100, and 1% for selling tickets with prizes of more than \$100.

Fiscal year 2011 instant ticket sales were up 10.3% from the previous year and revenues were up 0.3%. Revenue from the sale of instant tickets is distributed to the General Fund.



**S. D. Lottery Sales Representative
Mary Deuchar visits a Lottery retailer.**

Our employees are our greatest resource...

Lotto Tickets

South Dakota currently offers five lotto games. Powerball, Mega Millions, Wild Card 2, and Hot Lotto are multi-state games. Dakota Cash is played only in South Dakota.

At the end of fiscal year 2011, there were 584 licensed lotto retailers.¹ Lotto retailers also receive a 5% commission for selling tickets, plus varying bonuses for selling larger winning tickets.

Lotto games reported an overall sales decrease of 1.7%; transfers were virtually unchanged from fiscal year 2010. The first \$1.4 million of revenue from the sale of lotto tickets is distributed to the General Fund, and the balance is distributed to the Capital Construction Fund.

Video Lottery

The Lottery regulates and controls video lottery game activities through licensing procedures for the machines, machine owners and operators, and establishments, as well as a comprehensive secure central computer system.

Video lottery sales (cash in) decreased by 9% in fiscal year 2011. The average number of active video lottery machines during fiscal year 2011 was 9,136 and the average number of licensed establishments was 1,498. The revenue from video lottery is calculated on net machine income, which is cash-in (sales) minus cash-out (prizes). Net machine income is divided between the state and machine operators on a 50/50 split. One-half of one percent (0.5%) of the state's share is retained by the Lottery for administration.

Revenue from video lottery net machine income is distributed to the Property Tax Reduction Fund. A portion of machine manufacturer license fees is distributed to the General Fund.

FY2011 Lottery Revenue Distribution

	<u>General Fund</u>	<u>Capital Construction Fund</u>	<u>Property Tax Reduction Fund</u>	<u>Dept. of Human Services**</u>
Instant Tickets*	\$4,709,525			
Lotto Tickets*	1,400,000	\$6,771,703		
Video Lottery**	15,000		\$94,925,966	\$156,113
Totals:	\$6,124,525	\$6,770,703	\$94,925,966	\$156,113

*Unaudited - Figures represent the first transfer only. A second transfer is made upon completion of the FY2011 audit.

**The Lottery annually provides the S.D. Department of Human Services with funding for problem gambling treatment services. Funding comes from the Lottery's 0.5% of net machine income for administration.

The Lottery's website, lottery.sd.gov, offers winning numbers, prize claim forms, retailer forms and licensing and accounting information, recent winners' stories, and other general information about the Lottery.

The Lottery also publishes an annual financial report, as required by law, which includes a full and complete statement of the lottery's financial position and operations. The annual financial report is published after completion of an independent audit, and is available from the Lottery.

¹ All lotto retailers are also instant ticket retailers, and were included in the total number of licensed instant retailers.

COMMISSION ON GAMING

LARRY ELIASON, EXECUTIVE SECRETARY

The South Dakota Commission on Gaming is responsible for regulating the gaming industry in the City of Deadwood, administering Indian gaming compacts, and pari-mutuel wagering.

The Commission on Gaming maintains two office locations (in Pierre and Deadwood) and employs approximately 16 individuals, including investigators, auditors, accountants, administrative assistants, inspectors, and an executive secretary. The Commission itself is comprised of five commissioners.

The Commission may issue six types of Deadwood gaming licenses (slot machine manufacturer or distributor; operator; route operator; retail, key employee, and support), tribal gaming licenses, and four types of live racing and simulcast licenses (simulcast provider, simulcast site, simulcast pari-mutuel, and multiple category live racing). The commission is supported by the commission fund which is comprised of revenues from annual device fees, licensing fees, other miscellaneous revenue and the gaming tax collected from Deadwood. The tax rate is defined by SDCL 42-7B-28 and is 8% of the adjusted gross revenue. SDCL 42-7B-48, 42-7B-48.1, and 42-7B-48.3 establish the distribution structure of the taxes collected. According to 42-7B-48, 40% of the tax is transferred to the Department of Tourism, 10% is paid to Lawrence County, and the remaining 50% stays in the commission fund. During the 2009 Legislative Session, an additional tax defined by SDCL 42-7B-28.1 of 1% of the adjusted gross revenue was imposed with the proceeds going directly to the State General Fund.

In fiscal year 2011, total gaming action was \$1,090,405,503 down 2.27% from the previous year. At the close of the fiscal year, there were 3,486 licensed gaming devices, 138 retail locations, and approximately 1,495 licensed gaming employees.

FY2011 Recap of Commission Fund

Revenues

FY11 Device Tax	\$6,972,000.00
Gross Revenue Tax	8,995,691.40
City Slot Tax	252,181.82
Application Fees	107,740.00
License Fees	86,155.00
Interest	100,776.10
Device Testing Fees	12,873.88
Penalties on Disciplinary	1,190.00

Fund Total

\$16,528,608.20

Distributions

Administrative Expenses	\$1,015,397.40
Expenses reimbursed by Applicants/Licensees	193,895.00
Capital Equipment	10,924.95
Lawrence County (Per 42-7B-48)	806,006.41
Other Municipalities - Lawrence County (Per 42-7B-48.1)	349,484.30
School Districts (Per 42-7B-48.1)	349,484.30
SD Tourism (Per 42-7B-48)	3,224,025.64
State General Fund (Per 42-7B-48.1)	2,446,390.16
State General Fund (Per 42-7B-28.1)	1,007,508.02
State Historical Preservation (Per 42-7B-48.1)	100,000.00
Department of Human Services (per 42-7B-48.3)	30,000.00
City of Deadwood (Per 42-7B-48, 48.1)	7,072,291.35

Total Distributions from Fund:

\$16,605,407.53

COMMISSION ON GAMING/ (CONTINUED)

FY2011 Recap of Racing Funds

	Special Fund	Revolving Fund	Bred Fund	Totals
Beginning Cash Balance (06/30/2010)	\$11,194	\$192,859	\$75,489	\$279,542
Revenues:				
Horse Revenue	42,640	295,282*	117,889	455,811
Greyhound Revenue	27,551	73,279	38,983	139,813
Interest	0	10,894	4,882	15,776
Transfer from Agency Fund	(117,461)	103,031	14,430	0
License & Fines - Horse	47,765			47,765
License & Fines - Dog	3,700			3,700
Total Revenues:	\$15,389	\$675,345	\$251,673	\$942,407

Expenses:

Aberdeen Horse Racing Track

SD Bred Point Money			32,000	32,000
Purse Supplements, Racing Operations and Advertising & Promotion		168,000		168,000
Jockey Bonus		4,000		4,000
SD Bred Stakes Money			18,000	18,000

Ft Pierre Horse Racing Track

SD Bred Point Money			32,000	32,000
Purse Supplements, Racing Operations and Advertising & Promotion		168,000		168,000
Jockey Bonus		7,750		7,750
SD Bred Stakes Money			18,565	18,565

Total Track Disbursements:	\$ -	\$347,750	\$100,565	\$448,315
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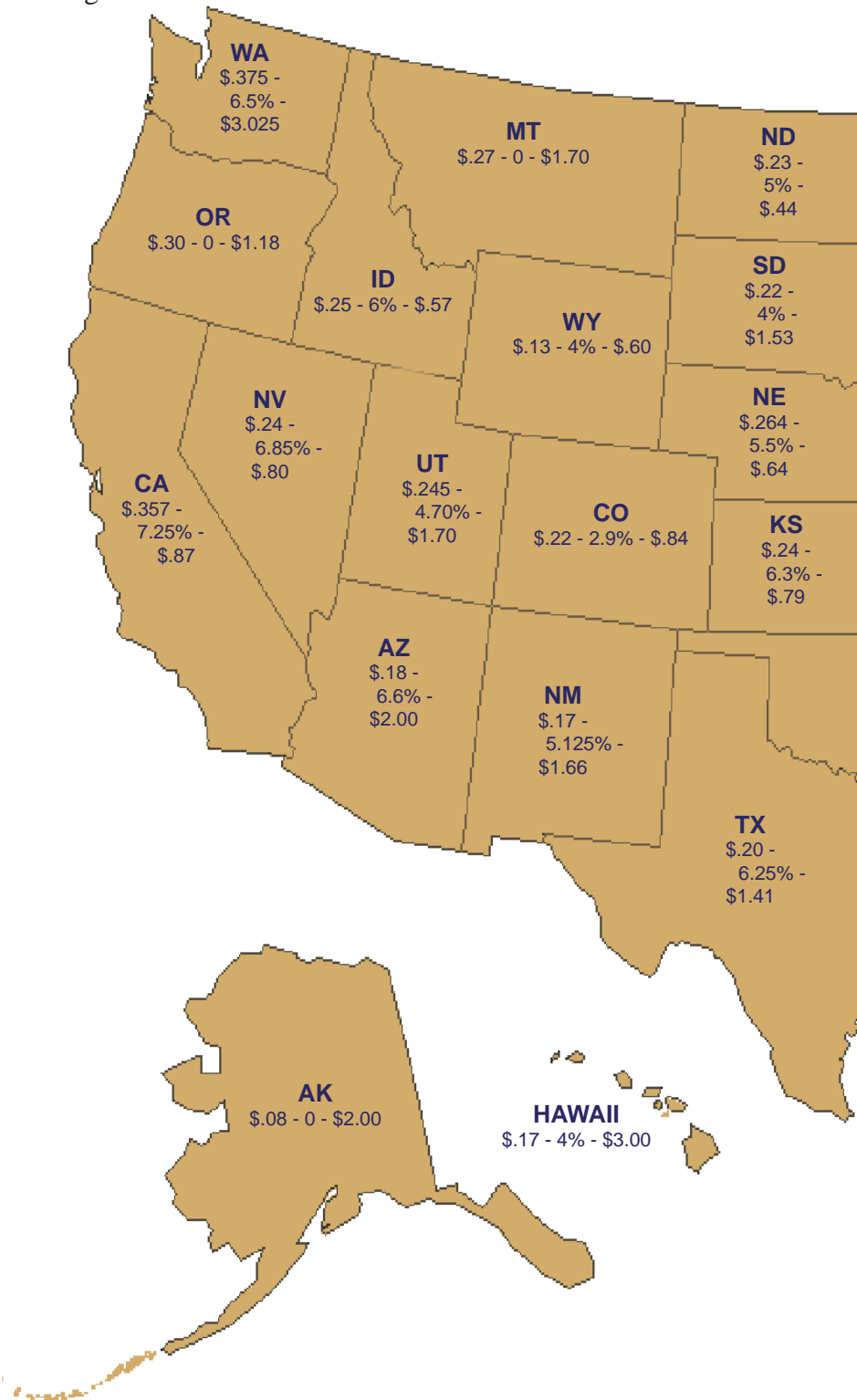
Ending Cash Balance (6/30/11)	\$15,389	\$327,595	\$151,108	\$494,092
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*Does not include prior year adjustment that is reflected in the MSA account balance.

HOW SD COMPARES TO OTHER STATES

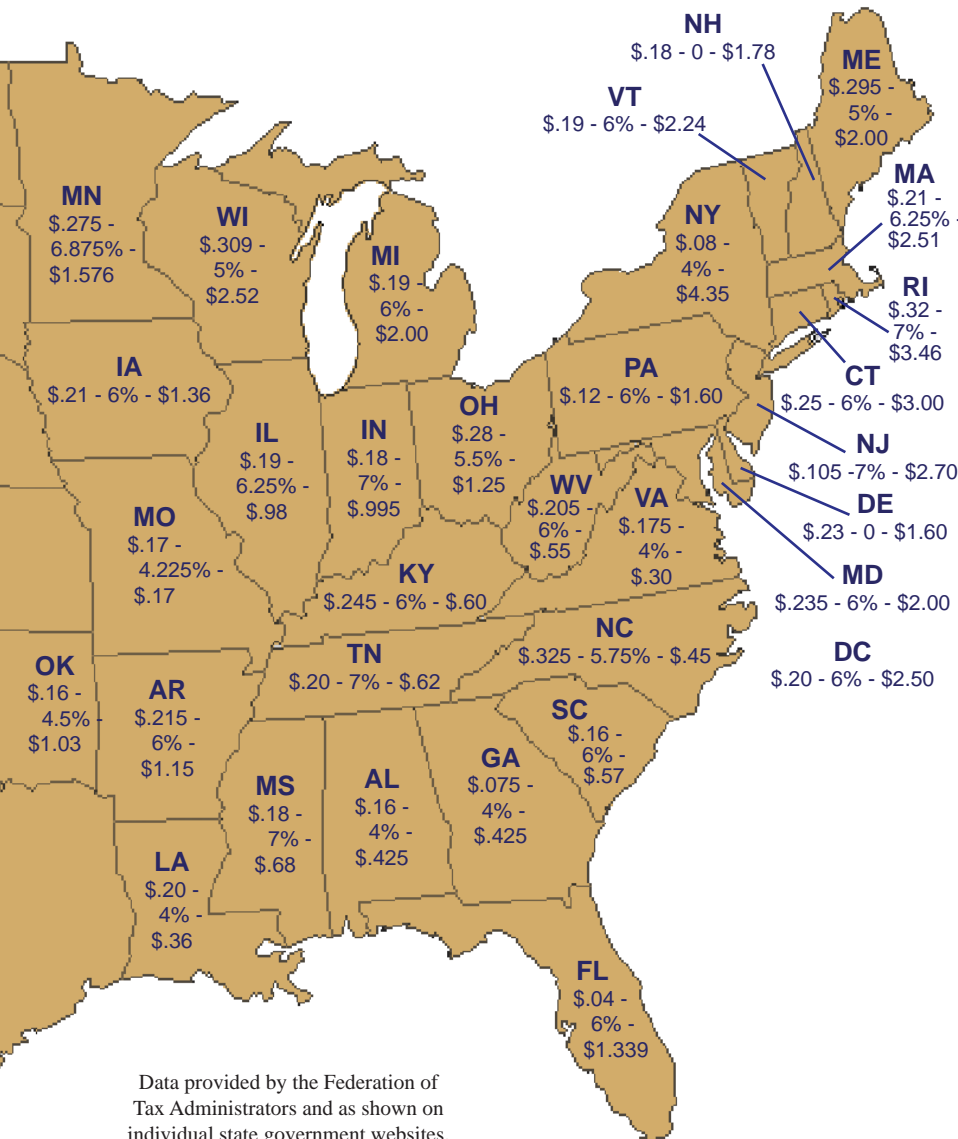
At just \$1,602, South Dakota had the fourth lowest per capita state tax burden in 2010, according to the latest figures available from the U.S. Bureau of the Census and Bureau of Economic Analysis. Following is a listing of per capita state tax burdens for all 50 states, beginning with the highest.

Alaska	\$6,361
Vermont	4,013
North Dakota	3,934
Wyoming	3,756
Hawaii	3,556
Connecticut	3,438
New York	3,278
Minnesota	3,245
Delaware	3,085
Massachusetts	3,062
New Jersey	2,949
California	2,814
Maryland	2,637
Maine	2,627
Wisconsin	2,527
West Virginia	2,512
Arkansas	2,496
Rhode Island	2,441
Washington	2,395
Pennsylvania	2,375
Illinois	2,320
Michigan	2,289
Kansas	2,276
North Carolina	2,256
Iowa	2,235
Kentucky	2,197
Montana	2,166
Nevada	2,161
New Mexico	2,144
Indiana	2,128
Mississippi	2,113
Nebraska	2,086
Virginia	2,051
Ohio	2,044
Oregon	1,951
Louisiana	1,932
Oklahoma	1,887
Idaho	1,883
Utah	1,842
Alabama	1,712
Colorado	1,707
Florida	1,675
Tennessee	1,657
Missouri	1,620
New Hampshire	1,614
South Dakota	1,602
Arizona	1,596
Texas	1,567
Georgia	1,526
South Carolina	1,471



HOW SD COMPARES TO OTHER STATES/CONTINUED

The three figures in each state are, left to right or top to bottom, the gasoline tax per gallon, the sales tax rate, and the cigarette tax per package. Local tax rates are not included unless mandatory. "0" indicates the tax is not levied.



Five Highest Gasoline Tax Rates

Washington	\$.375
California	\$.357
North Carolina	\$.325
Rhode Island	\$.32
Wisconsin	\$.309

Seven Highest Sales Tax Rates

California	7.25%
Indiana	7%
Mississippi	7%
New Jersey	7%
Rhode Island	7%
Tennessee	7%
Minnesota	6.875%

Nine Highest Cigarette Tax Rates

New York	\$4.35
Rhode Island	\$3.46
Washington	\$3.025
Connecticut	\$3.00
Hawaii	\$3.00
New Jersey	\$2.70
Wisconsin	\$2.52
Massachusetts	\$2.51
Washington, DC	\$1.53

Comparing the Region

	Gas Tax (cts. per gallon)	Sales Tax (%)	Cigarette Tax (per package)
South Dakota	22	4	1.53
Iowa	21	6	1.36
Minnesota	27.5	6.875	1.576
Montana	27	0	1.70
Nebraska	26.4	5.5	0.64
North Dakota	23	5	0.44
Wyoming	13	4	0.60

DEPARTMENT RESOURCES

Main Offices

Revenue - Pierre Office* - Anderson Building, 445 East Capitol Avenue, Pierre, SD 57501-3185, ph. 605.773.3311 (main phone)

(*includes Administrative Services, Audits, Business Tax, Legal, Motor Vehicles, Office of the Secretary, and Property and Special Taxes)

S.D. Lottery - Capitol Lake Plaza, 711 East Wells Avenue, P.O. Box 7107, Pierre, SD 57501, ph. 605.773.5770

S.D. Commission on Gaming - 221 West Capitol Avenue, Suite 101, Pierre, SD 57501, ph. 605.773.6050

Field Offices

Aberdeen Area Revenue Office - 419 Moccasin Drive, Aberdeen, SD 57401, ph. 605.626.2218

Deadwood Gaming Office - 696 Main Street, 2nd Floor, Deadwood, SD 57732, ph. 605.578.3074

Mitchell Area Revenue Office - 417 North Main, Suite 112, P.O. Box 1103, Mitchell, SD 57301, ph. 605.995.8080

Rapid City Revenue Office - 4447 South Canyon Road, Suite 6, Rapid City, SD 57702, ph. 605.394.2332

Rapid City Lottery Office - 107B New York Street, Rapid City, SD 57701, ph. 605.394.5106

Sioux Falls Revenue Office - 300 South Sycamore Avenue, Suite 102, Sioux Falls, SD 57110, ph. 605.367.5800

Sioux Falls Lottery Office - 3824 South Western Avenue, Sioux Falls, SD 57105, ph. 605.367.5840

Watertown Area Revenue Office - 1505 10th Avenue SE, Suite 1, Watertown, SD 57201, ph. 605.882.5188

Yankton Area Revenue Office - 1900 Summit Street, Yankton, SD 57078, ph. 605.668.2939

Toll-Free Phone Center

Department of Revenue staff are on hand to offer answers to your tax questions Monday thru Friday from 8:00am to 5:00pm CST. Just call 1-800-TAX (829)-9188.

Department Website

Visit us on the Internet at www.state.sd.us/drr. Access any of our divisions through our Department of Revenue home page.

State (SDCL 20-13) and federal (Title VI of the Civil Rights Act of 1964, the Rehabilitation Act of 1973 as amended, and the Americans with Disabilities Act of 1990) laws require that the Department of Revenue provides services to all persons without regard to race, color, creed, religion, sex, disability, ancestry, or national origin.

The *South Dakota Department of Revenue 2011 Annual Report* is written and designed to make information accessible to the general reader. Three hundred copies of this document were printed by the department at a cost of \$4.07 per document.

*Department of Revenue
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